DOCUMENT RESUME

ED 125 474 HE 008 051

TITLE A Deferred Cost of Education Plan for Podiatric Medicine.
INSTITUTION Academy for Educational Development, Inc., Washington, D.C.; American Association of Colleges of Podiatric Medicine, Washington, D.C.
SPONS AGENCY Health Resources Administration (DHEW/PHS), Bethesda, Md. Bureau of Health Manpower.
PUB DATE Apr 76
CONTRACT 231-75-0202
NOTE 215p.
AVAILABLE FROM Academy for Educational Development, Inc., 1414 Twenty-Second Street, N.W., Washington, D.C. 20037

EDRS PRICE MF-$0.83 HC-$11.37 Plus Postage.
DESCRIPTORS Educational Development; *Educational Finance; Financial Needs; *Health Occupations Education; *Higher Education; *Student Costs; *Student Financial Aid; *Student Loan Programs
IDENTIFIERS *Podiatric Medicine

ABSTRACT

A study carried out by the American Association of Colleges of Podiatric Medicine and the Academy for Educational Development: (1) examines and documents the financial needs and prospects of colleges of podiatric medicine; (2) analyzes the case for and against a deferred cost of education plan for the colleges of podiatric medicine; and (3) develops a funding plan and a course of action. The proposed deferred cost of education funding plan would establish in advance an option for the U.S. Government to finance, to the extent deemed necessary in future periods, professional health care services in underserved areas. When students are ready to practice, they also would have the option of repaying the borrowed funds either in cash or in the service for which they have committed themselves. The expectation is that the amount borrowed for education costs will be high enough to make it worthwhile for many students to provide the three years of future service for which they are contracted. (Author/KE)

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ED125474

A DEFERRED COST OF EDUCATION PLAN FOR PODIATRIC MEDICINE

American Association of Colleges of
Podiatric Medicine

Academy for Educational Development, Inc.
(Subcontractor)

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EDUCATION & WELFARE
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HE008051

Washington, D.C.

April 1976

Report funded by the Bureau of Health Manpower, HRA, DHEW, contract NO. 231-75-0202.

Advisory Panel for the Study

John E. Andrews
Chairman of the Panel
Vice President for Student Affairs, Illinois College of Podiatric Medicine

Higgins D. Bailey, Ed.D.
President, California College of Podiatric Medicine

Mildred K. Dixon, D.P.M.
Veterans Administration
Tuskegee Institute, Alabama

Lee Edelstein
Vice President for Administration, New York College of Podiatric Medicine

Lloyd M. Kahn
Student, New York College of Podiatric Medicine

Lawrence G. Lefler, D.P.M.
Past President, American Podiatry Association

Norman B. Levine
Student, Pennsylvania College of Podiatric Medicine

Leonard Levy, D.P.M., M.P.H.
Dean, School of Podiatric Medicine, State University of New York at Stony Brook

Alan H. Nichols, J.D.
The Nichols Law Corporation; Member, Board of Trustees, California College of Podiatric Medicine

Seward P. Nyman, D.P.M.
Executive Director, American Podiatry Association

Abe Rubin, D.P.M.
President, Ohio College of Podiatric Medicine

Laurence C. Sartor, Ph.D.
Vice President for Student Affairs, Pennsylvania College of Podiatric Medicine

Staff for the Study

Project Director:

Robert A. Heil
Executive Director,
American Association of
Colleges of Podiatric Medicine

Study Staff of the Academy for Educational Development

Project Coordinator:

Sidney G. Tickton
Executive Vice President

Associate Project Coordinator:

William A. Kinder
Assistant Secretary

Staff Assistants:

Carol Florio
Research Associate

Nancy M. Harding
Administrative Assistant

Project Monitor for the Health Resources Administration:

Karl Hoffman
Project Officer, Division of
Associated Health Professions
Bureau of Health Manpower

AMERICAN ASSOCIATION OF COLLEGES OF PODIATRIC MEDICINE

EDUCATION RESEARCH SERVICE

20 CHEVY CHASE CIRCLE, N.W., WASHINGTON, D. C. 20015

202 — 362-2707

Office of Executive Director

April 15, 1976

Dr. Daniel Whiteside
Director, Bureau of
Health Manpower
Health Resources Administration
Public Health Service
5600 Fishers Lane, Room 11-05
Rockville, Maryland 20852

Dear Dr. Whiteside:

I am pleased to present to the Bureau of Health Manpower the report entitled "A Deferred Cost of Education Plan for Podiatric Medicine," prepared by the Academy for Educational Development as our subcontractor. The report describes a proposed new plan for financing the education of doctors of podiatric medicine, covering both the costs of the students and of operating the colleges. This report represents the end product of a year long project which was sponsored by the Division of Associated Health Professions in your Bureau and was carried out under HRA contract number 231-75-0202.

The project involved an in-depth study by the Academy into past and present costs of a means of financing podiatric medical education and the prospects for financing those costs in the future. A substantial amount of information and statistical data were assembled, and various financing alternatives were explored. The plan which evolved from this study represents what we consider to be the most viable and workable solution among all of the alternatives considered. The colleges of podiatric medicine support the proposed plan and are prepared to take the necessary actions for its implementation. Some of the steps in that direction have, in fact, already been taken.

The contract provided that the work of the Academy be conducted under the general supervision of an advisory panel appointed by our Association. The panel was responsible for a continuous review of the progress of the study and for providing the Academy's study team with a constant feedback on the material prepared. The names of the panel members and their affiliations are listed in the front of this report.

The plan, developed as a result of this study for financing the education of students of podiatric medicine, has been discussed with more than 100 persons in addition to members of the advisory panel. Included have been:

- representatives of the offices of the Assistant Secretary for Health and the Assistant Secretary - Planning and Evaluation, Department of Health, Education, and Welfare, who are involved in planning support for the health professions;
- staff members of congressional committees working on health manpower legislation;
- representatives of a number of other health professions, including medicine, osteopathy, dentistry, optometry, veterinary medicine, and pharmacy; and
- persons involved broadly in the problem of financing college education and persons specifically concerned with the financial needs of college students who are covering all or a portion of their educational costs by borrowing under the provisions of federal or state student assistance programs.

The input provided by these persons has been of great assistance to us. We use this occasion to thank them publicly for the time and consideration they gave us and for the insights they provided.

The plan proposed by the Academy is a practical approach to the problems of financing the colleges of podiatric medicine and their students -- problems which, I am sure you know, are growing in both size and complexity. Furthermore, we believe the proposed plan deserves careful consideration as a viable approach to financing the education of students in other health professions. This outcome was not a mere coincidence since, as specified by the contract, the study staff of the Academy kept in mind the ways in which the financing of other health professions education might also be served by the plan developed out of the study.

We hope that the proposed plan can be implemented for podiatric medicine without serious delay. We would welcome an opportunity to discuss strategies for action with you or your associates at any time at your convenience.

Sincerely yours,

Robert A. Heil

Robert A. Heil
Executive Director

ACADEMY FOR EDUCATIONAL DEVELOPMENT, INC.
1414 TWENTY-SECOND STREET, N.W.
WASHINGTON, D. C. 20037

TELEPHONE: (202) 293-5960

April 15, 1976

Mr. Robert A. Heil
Executive Director
American Association of Colleges
of Podiatric Medicine
20 Chevy Chase Circle, N.W.
Washington, D.C. 20015

Dear Mr. Heil:

Some months ago you asked the Academy for Educational Development to conduct a study for the American Association of Colleges of Podiatric Medicine, and to prepare a report which would develop and describe in as much detail as possible a new plan for financing the cost of educating students enrolled in schools of podiatric medicine.

In the early discussions of this study, and in subsequent conferences, you asked the Academy to concentrate on providing a workable financing plan which would:

- provide students with the funds required to cover the cost of tuition, room, board, and books -- while in school, and until the period of residency has been completed; and
- take care of the financial needs of the various colleges for budget balancing next year and in the years ahead, regardless of the government's position with respect to the future support of capitation programs.

The report we are transmitting with this letter presents such a financing plan. The details have been discussed with you as the study progressed, of course, as well as with members of the Panel appointed by the Association to monitor and advise on this project.

During the course of this study, the Academy staff consulted and conferred with administrative officers of the colleges, as well as with faculty members and students, and with numerous persons currently working on the problems of financing college students and balancing college budgets. The staff also gathered a good deal of statistical and financial data on the operations of the various colleges, and developed information based on surveys by the colleges of the indebtedness incurred by their students.

x

Mr. Robert A. Heil
Page two
April 15, 1976

The staff found that much of the information needed for this study was not readily available and had to be assembled. Furthermore, the facts and figures were not generally known to many members of the colleges' administrative staffs and faculty, nor the students, nor to the government officials working on health manpower planning or on the problem of financing colleges educating persons for the health professions. We have, therefore, included with this report a number of appendix sections which summarize the data assembled.

The Academy's staff uses this occasion to acknowledge with thanks the assistance received from you and your associates, the members of the Advisory Panel, and other college officials. While we take full responsibility for the report and for the details of the proposed plan, much of the material presented in this document has been developed, as you know, with the aid of the colleges. The report could not have been written without this assistance and we truly appreciate the many hours of time given us by the many persons with whom we have been in contact since the study began.

Sincerely yours,

ACADEMY FOR EDUCATIONAL DEVELOPMENT

Sidney G. Tickton
Executive Vice President and
Project Coordinator

William A. Kinder
Assistant Secretary and
Associate Study Director

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PREFACE

The term "deferred cost of education plan" is commonly used to refer to the various ways of postponing payment by students until after graduation of the expenses of obtaining a college, university, or professional education.

For the colleges of podiatric medicine, and as used in this report, the term has a broader than usual meaning; that is, besides postponing payment by the student the plan must enable the colleges to:

- raise enough money from students to finance current ordinary education costs under inflationary conditions;
- raise enough money from students to make needed improvements in education quality; and
- raise tuition enough for students to cover a substantially larger percentage of expenditures than in the past.

The objective of this study was to develop a deferred cost of education plan which would meet these criteria. The plan had to take into account and make adequate provisions, therefore, for such factors as:

- the ability of the colleges to raise the total amount of money needed to carry out their educational missions adequately;
- the ability of the students to pay substantially higher tuition and obtain from lenders the funds needed to cover their costs;
- the ability of the graduates to repay the amount of loans incurred;
- the ability of the public to obtain from graduates adequate podiatric medical services in underserved areas; and
- the ability of the U.S. Government to realize its objectives in expanding professional health care services.

The deferred cost of education plan proposed in this report and the alternative plans described were designed to satisfy all of the criteria noted. Each plan would work well under a variety of foreseeable circumstances.

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Summary of the Report

The purpose of this report is to:

- present the plan proposed for the financing of the cost of education of students enrolled in colleges of podiatric medicine;
- supplement the plan with such operating details as necessary to convert the plan from a concept to a working reality;
- support the plan with the statistical and other information on need and cost assembled during the course of the study that might be helpful in judging the feasibility of the plan; and
- indicate workable alternative courses of action which might be adopted if Congress should not take the actions necessary to implement the plan as proposed.

In preparing this report, the study staff found that:

- four years of podiatric medical education now cost the student about $35,000;
- by 1980 the cost is expected to be more than $60,000;
- students can hardly finance the current level of cost and cannot be expected under present circumstances to manage the increased future cost;
- the financial position of the colleges is precarious, and their future financial requirements make uncertain the survival of podiatric medical education without a new financing plan;
- the colleges need to look increasingly to students to cover a larger proportion of the rising costs of education;
- tuition and fees have increased by 121 percent in the past five years and can be expected to more than triple present levels by 1980;
- tuition and fees now cover nearly half of the educational expenditures made by colleges of podiatric medicine; and

CHART A

COST OF FOUR-YEAR PODIATRIC MEDICAL EDUCATION

By Year

Cost to 1976 Graduates		Cost to 1981 Graduates	
$35,197		$62,385	
$9,900	4th year	$19,015	4th year
$9,189	3rd year	$16,560	3rd year
$8,413	2nd year	$14,340	2nd year
$7,695	1st year	$12,470	1st year

By Expense Item

Cost to 1976 Graduates		Cost to 1981 Graduates	
$11,267	Tuition and Fees	$29,500	Tuition and Fees
$ 1,650	Books and Equipment	$ 2,270	Books and Equipment
$13,150	Room and Board	$18,065	Room and Board
$ 9,130	Other Living Expenses	$12,550	Other Living Expenses

Source: Estimates by the Academy study staff.

- increases in revenue from sources of financing other than students will not be enough to alter significantly the projected increases in charges to the student.

The staff concluded that:

- a new financing plan is needed for podiatric medical education;
- the only viable possibility is a plan that looks to students to cover a greater part of the cost of education;
- the only viable plan for students is one that permits a large portion of the cost to be deferred.

In investigating how a deferred cost plan would work, the study staff found that the plan would have to:

- provide enough money through tuition and fees to cover rising costs of education due to inflation and to permit the colleges to make the needed improvements in the quality of their education programs and operate them on a sound financial basis;
- be acceptable to the colleges, the students, and all the other parties who would be involved in the plan, such as lenders, guarantors, etc.; and
- be effective in serving the interests and needs of the public and in satisfying public policy objectives.

With regard to the provision of an adequate amount of money the study staff noted that:

- the colleges have inadequate assets and resources to defer receipt of tuition and fees from students without a large infusion of funds to finance current operations;
- the colleges will have to increase revenues from students from $7.2 million in 1976 to $28.0 million in 1981. Unless this increase is made the amount involved would become unfunded education expenditures;
- the aggregate cost of podiatric medical education will go from $14.7 million per year currently to

$40 million per year within five years, a large part of which will have to be deferred;

- other than governmental organizations, the only feasible source of such large amounts of money for the students is private lending institutions;

- by 1980, the average amount borrowed per student from lending institutions might be expected to be $8,000 to $10,000 per year for a total of $30,000 to $40,000 over four years;

- the total amount of loans outstanding could easily reach $250 million within seven years and, if an extended period of time were required for repayment of the loans, the amount needed would be even larger.

In view of the foregoing, the study staff concluded that the amounts would be so large as to make Federal Government help essential. While banks and other lending institutions could provide the funds, they would not be likely to do so unless they felt the loans would be secure and profitable.

The colleges could offer no collateral other than the deferred cost receivables from students, and the average student could secure loans only by a promise of future earnings potential. Thus, a federal guarantee is crucial to assure the level of confidence needed for lenders to make available the amount of funds required.

With these factors in mind, the study staff developed a plan which would permit:

1) the colleges of podiatric medicine to achieve an important financial objective — that is, to provide a high quality education with less dependence on federal funding than in the past;

2) the students of podiatric medicine also to achieve an important financial objective -- that is, to be a party to a mechanism which will permit the financing of all or nearly all of the cost of a professional education in the health care field without imposing an impossible cost burden before the period of professional earnings begins;

3) the U.S. Government to achieve two important objectives; that is:

    - to reduce the constant demand for more federal funding from colleges training persons for professional work in health services; and

- to insure the provision of more professional health care services within a few years in heretofore underserved areas.

A summary of the Deferred Cost of Education Plan proposed for the colleges of podiatric medicine and their students follows:

1) Federal legislation would be enacted through which the U.S. Government would guarantee loans for podiatric medical students who contract to serve in underserved areas after graduation and residency.

2) Every student enrolled in the first professional degree program (DPM) at a college of podiatric medicine would be entitled to borrow under the plan an amount equal to (a) the tuition and fees, (b) the cost of room, board, and books (as determined by the regulations for the plan), and (c) the accumulated interest and other borrowing costs accrued on previous loans for podiatric medical education.

3) The lender would be individual banks or insurance companies or a separately incorporated company, such as United Student Aid Funds, Inc., acting as the agent for a group of banks, insurance companies, pension funds, etc., or a separate company with access to the capital markets such as the Student Loan Marketing Association.

4) The amounts borrowed would be evidenced by notes signed by the student and guaranteed by the U.S. Government. The notes would bear a rate of interest that would make the loans competitive with other investment opportunities of the lender (say, the three-months U.S. Treasury bill rate plus three percent), plus appropriate charges for insurance and for servicing the loans.

5) The principal of the note plus the accumulated interest and other borrowing costs would be payable in three equal annual installments starting at the end of the first year after the student expects to receive the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate education program including residency. The duration of the repayment period

may have to be augmented if the opportunity to provide service in lieu of cash repayment is severely limited.

6) The contract with the U.S. Government for professional services would provide that for each consecutive year, up to three years, of full-time professional podiatric service in a designated underserved area, the government would pay one-third of the balance of the notes outstanding as of the date service begins plus interest and other borrowing charges. The minimum service commitment would be two years.

7) The loan agreement would be accompanied by a life and disability insurance policy, the face amount of which would be equal to the outstanding loan balance including accumulated interest, cost of insurance, and service fees.

8) Students would be entitled to pay off the notes, including the accumulated charges and interest, in cash if they did not wish to or could not provide services in an underserved area as required by the contract.

9) Congress could also choose to authorize the Federal Government to repay loans for other public service work by graduates such as service in ACTION, the Peace Corps, VISTA, the National Health Service Corps, or active military service.

10) Congress also could provide for the Federal Government to repay loans of students under conditions of extreme hardship (such as a student from a low-income or disadvantaged family who failed to complete the podiatric medical education program, was in exceptionally needy circumstances, and could not be expected to resume study within three years).

The Deferred Cost of Education Plan for students of podiatric medicine proposed in this report is designed to overcome in a straightforward and direct manner the deficiencies of past student aid, student loan, or college assistance plans. Under the plan proposed in this report:

1) All students, whether needy or not, could borrow all or nearly all of the cost of their education from a private lender in the form of a government guaranteed loan, in return for signing a contract with the government to provide three consecutive years of full-time professional patient care service in an

underserved area after graduation and residency.

2) The colleges of podiatric medicine could charge an amount for tuition and fees adequate to operate the institutions at higher levels of quality with less dependence on federal funding than in the past.

3) The U.S. Government could contract with the students to provide podiatric medical services in underserved areas after graduation and residency; and, to the extent it wished, repay the loans of students in return for the services as they are rendered.

Student aid plans in the past have not fully succeeded in meeting goals such as the foregoing because they have failed to:

1) provide enough money to meet the financial requirements of the institutions, or even of students who could prove acute financial need;

2) establish an adequate quid pro quo for the provision of professional health care services in underserved areas; and

3) make clear the philosophy behind the government's financial support policies and the extent to which they are designed to help (a) colleges provide better education programs; (b) students obtain costly professional training; or (c) the people, especially in underserved areas, to obtain increased health care services.

Forgiveness or repayment provisions of current loan programs for the health professions have not worked well because the amount of loans that would be repaid by the government has been too low to be effective in persuading graduates to set up practice in underserved areas.

> The result of programs in operation at present speak for themselves. They have provided only a small fraction of the service hoped for in response to the provisions for repayment of loans by the government.

Under the plan proposed in this report, the amounts borrowed to meet education costs in the future (including interest, insurance, and service charges) are expected to be high enough to be an incentive for most students to provide the three years of future service under the contract. Nevertheless, if the amounts due do not turn out to be high in relation to the immediate earnings potential in the years after residency, students could arrange to pay the loans in cash, and the government would have incurred no cost for the education involved.

In effect, the plan proposed in this report would establish in advance an option for the U.S. Government to finance to the extent deemed necessary in future periods, professional health care services in underserved areas. When students are ready to practice, they also would have the option of repaying the borrowed funds either in cash or in the service for which they have committed themselves.

Four alternative deferred cost of education plans were considered by the study staff and determined to be viable if the plan described above were not implemented:

Alternative Plan #1: would establish a College Security Fund with a private guarantor organization (such as United Student Aid Funds, Inc.) financed with funds appropriated by the Federal Government. The College Security Fund would then become the financial base on which to secure from lending institutions as much as ten times the amount of the fund in student loans. If the Federal Government appropriated $7 million dollars over five years for the Security Fund in lieu of capitation grants, some $70 million in student lending would become available.

Alternative Plan #2: would establish the College Security Fund, as in Alternative Plan #1, with contributions from private donors, foundations, state governments, and funds from the internal operations of the colleges; otherwise, the provisions of the plan would be virtually the same.

Alternative Plan #3: would amend the provisions of the Guaranteed Student Loan Program as it affects students in the health professions by: (1) raising the borrowing limit to $25,000 (from the $10,000 now existing which includes loans incurred from undergraduate education); (2) raising the maximum rate of interest chargeable to students from seven percent to eight percent; (3) increasing the special allowance paid by the U.S. Treasury as a partial interest subsidy on the loans from a maximum of three percent to four percent; and (4) extending the grace period to three years (from the existing one year after the borrower ceases to be a full-time student) in order to allow enough time for residency training and establishing practice.

Alternative Plan #4: would expand the existing Health Professions Student Loan Program by: (1) raising the borrowing limit to a maximum of $7,000 per academic year, or the amount of financial need, whichever is less; (2) liberalizing substantially the needs formula; (3) increasing the grace period until three years after graduation or the student ceases to be enrolled full-time; and (4) establishing the program as an entitlement to be funded each year in the aggregate amount necessary to cover the loan requirements of all the students according to their needs as determined by the needs analysis formula.

Any of these four alternatives could serve as a major step toward solving the problems of financing podiatric medical education; however, each alternative plan has significant disadvantages. The plan proposed by the Association, the Panel, and the study staff would provide a better and more effective solution to the financing problems of the colleges and the students, would effectively address a number of health care issues, and is, therefore, recommended for adoption.

Introduction

This study has been carried out by the American Association of Colleges of Podiatric Medicine with the Academy for Educational Development acting as technical and professional subcontractor under the terms of contract 231-75-0202 with the Health Resources Administration of the Department of Health, Education, and Welfare, which required the contractor to:

1) examine and document the financial needs and prospects of the colleges of podiatric medicine;

2) analyze the case for and against a deferred cost of education plan for the colleges of podiatric medicine; and

3) develop a funding plan and a course of action.

This report summarizes the results of the year long study, all of the activities of which were carried on under the direction of an advisory panel established by the Association as required by the contract.

Chapter I summarizes the financial needs and prospects of the colleges of podiatric medicine. Chapter II discusses the case for and against a deferred cost of education plan. Chapter III describes the proposed funding plan. Chapter IV describes a number of alternative plans which could be considered in the event the necessary legislation for the funding plan proposed by the Association and the Academy was not enacted by Congress.

During the course of the study, the Academy's staff assembled and analyzed a good deal of information bearing upon the colleges of podiatric medicine and the students enrolled in these colleges. Much of the information is included in the final section of the report which consists of a series of appendices.

Midway during the study, the Health Subcommittee of the Senate Committee on Labor and Public Welfare held hearings on new health manpower legislation. The Administration made a number of proposals to the Subcommittee with respect to the future directions that new legislation might take. The Association was invited to testify before the Senate Subcommittee, to meet with representatives of the Administration to discuss the focus of the study, and to describe the plans set forth in this report.

I. The Financial Needs and Prospects of the Colleges of Podiatric Medicine

This chapter outlines the financial needs and prospects of (a) the colleges of podiatric medicine and (b) the students at these colleges. The text utilizes some of the statistical and financial data and other information gathered by the study staff to document the financial situation of the colleges and the students and to assess the need for a new financing plan. Some of the data are described at greater length and are qualified, when necessary, by appropriate footnotes in the appendix.

Briefly, the data gathered for the study showed that with respect to the five private colleges of podiatric medicine:

1) The operating budgets have grown substantially in recent years and in the aggregate are up by 183 percent since 1970.

2) Three main reasons for this budget growth were:

    a) inflation, which, of course, has affected all colleges and universities;

    b) an increase in the number of students enrolled, primarily in response to the U.S. Government's policies of expanding training in the health professions and of increasing opportunities for the disadvantaged for higher education in the health professions; and

    c) an increase in the quality of education provided by the colleges, demanded by the professional accrediting agencies to an extent which has in recent years radically altered training for podiatric medicine and increased substantially the professional competence of new practitioners.

3) As the expenditure budgets rose, each of the five colleges proceeded to increase tuition and fees. The increases were substantial, as might have been expected, bringing the average total charges to each student up from approximately $1,366 in 1970 to $3,014 in 1975, an increase of 121 percent in five years.

4) In the judgment of the officials of the colleges and of the students, these tuition and fee increases were about all that the students could manage in a five-year period. For many students the increases were a difficult burden and could be financed only by

increasing the amount of borrowing from all available sources including the Guaranteed Student Loan Program and the Health Professions Student Loan Program established at the colleges by the U.S. Government.

5) Each of the colleges also has tried to raise operating funds from sources other than tuition and fees. In the private sector these efforts did not produce substantial amounts. Less than one percent of the operating budgets of the five colleges during the past five years has come from private contributions.

6) The colleges relied on a substantial volume of funds from the U.S. Government to balance their budgets. These funds came in the form of capitation grants, special improvement grants, financial distress grants, college work-study funds, scholarship funds, capital plant improvements grants, etc. The total amount of federal assistance to the five private colleges for operating purposes ranged between $2 million and $4.37 million a year over the past five years, and represented 15 percent to 40 percent of their annual operating budgets.

7) The net result of all the factors that have affected the finances of the five colleges since 1970 -- that is, increased tuition and fees, more students, increased expenditures, and increased government funding -- is that the colleges found themselves at the beginning of 1976;

   - with no cash reserves; and

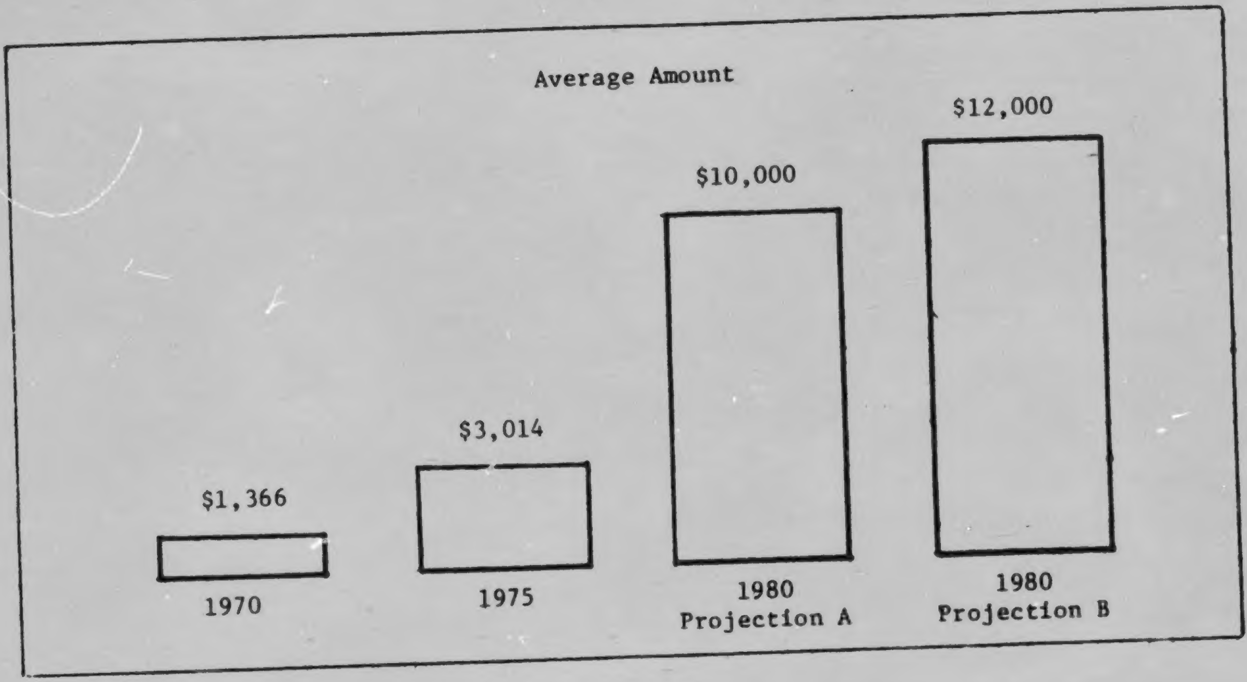
   - with a need to meet every current expenditure on a pay-as-you-go basis.

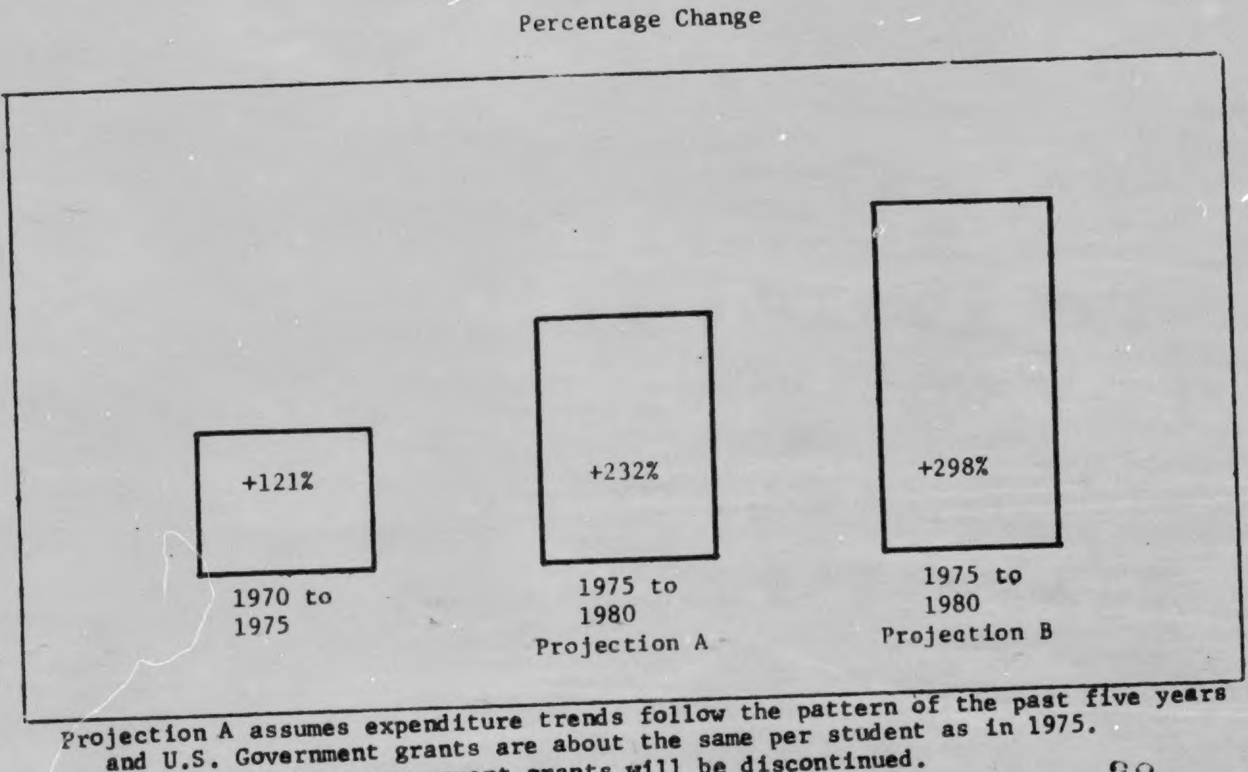
8) For the five colleges, this means that by 1980:

   - if the expenditure trend follows the pattern of the past five years and U.S. Government grants are about the same per student as in 1975, tuition and fees will have to rise by no less than 232 percent (Projection A);

   - if the expenditure trend follows the pattern of the past five years and U.S. Government grants are discontinued, as the Secretary of Health, Education, and Welfare has proposed, tuition and fees will have to rise by no less than 298 percent (Projection B).

TUITION AND FEES AT COLLEGES OF PODIATRIC MEDICINE
1970 TO 1980





Projection A assumes expenditure trends follow the pattern of the past five years and U.S. Government grants are about the same per student as in 1975.
Projection B assumes government grants will be discontinued.

9) These rises in tuition and fees would average 40 to 50 percent a year for five years, an absolutely unheard of rate of increase compared with the past. This, however, is the situation faced by the colleges.

The data gathered for the study also showed that with respect to students:

1) Four years of podiatric medical education now cost each student about $35,000, including tuition, fees, books, room, board, and other living expenses.

2) By 1980 the cost of podiatric medical education per student is expected to be no less than $60,000.

3) Students can barely manage to finance the current level of costs with present sources of funding, including borrowing under the Health Professions Student Loan Program.

4) Students are not going to be able to finance future higher costs of education within present sources of funds.

5) The funds required cannot be expected to come from pre-existing assets or from current assets or earnings. These sources have already been committed to meet present cost levels.

After gathering and analyzing the data, the study staff examined all existing possibilities for financing the cost of podiatric medical education which would meet the needs of the students and the colleges. The staff held conferences on the subject with students, college administrators, members of the profession, government officials, and banking executives. All agreed that a deferred cost of education plan, which would offer a workable means of solving the financial requirements of the colleges and the students, is needed. The conclusion of this study is that there seems to be no other way.

Further Comments

The staff carried on the study of the colleges of podiatric medicine and their students between March and December 1975. The principal conclusion arrived at was that a new financing plan is needed because the rapidly rising costs of podiatric medical education of acceptable quality no longer could be financed by existing financing programs.

While a similar conclusion might hold also for education in other health professions, the observation is particularly critical in podiatric medicine because (a) the colleges of podiatric medicine are private, free-standing institutions*; (b) costs are rising at a faster rate than in other health professions due to the more rapidly improving quality of podiatric medical education; (c) students of podiatric medicine currently bear a much greater portion of the cost of their education than do other health professionals; (d) the colleges of podiatric medicine always have received a substantially lower level of capitation than have colleges of medicine, dentistry, osteopathic medicine, and veterinary medicine, and the Administration would even phase out this support; (e) the level of state support has been much lower than for other health professions education; and (f) no significant amount of research funds has been available to colleges of podiatric medicine.

Despite this situation, the five private colleges of podiatric medicine have managed to double their enrollment in just six years and at the same time to make substantial improvements in the quality of their education programs. Nevertheless, the current needs and the needs for the future of the colleges of podiatric medicine and their students are great. The demand for podiatric medical education is high because the demand for podiatric medical services is not being met adequately. Students have managed to finance the costs of their podiatric medical education (which have nearly doubled in eight years) but they now are having a hard time doing so and cannot be expected to manage the increased costs in prospect for the future.

The data in this chapter provide a brief overview of the situation. The tables have been abbreviated wherever possible to present the data simply and directly. This was done for the convenience of the reader and to avoid either understating or overstating the conclusions drawn from the data. Further details, including information gathered by the staff specifically for this study, are in the Appendix.

The colleges of podiatric medicine

For a number of years, all the doctors of podiatric medicine in this country have been supplied by five private, free-standing colleges of podiatric medicine. These institutions are:

Name	Location
California College of Podiatric Medicine	San Francisco, California
Illinois College of Podiatric Medicine	Chicago, Illinois
New York College of Podiatric Medicine	New York, New York
Ohio College of Podiatric Medicine	Cleveland, Ohio
Pennsylvania College of Podiatric Medicine	Philadelphia, Pennsylvania

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* One state-supported school began operations in the fall of 1975 but due to state budget constraints the school was retrenched (phased out), a decision now being contested in court.

At the time this study was being carried out, discussions on and planning for the opening of additional new colleges of podiatric medicine had been going on for some years. The proposed new School of Podiatric Medicine in the Health Sciences Center, State University of New York at Stony Brook, did, in fact, admit its first class in the fall of 1975 but due to state budget constraints the Governor issued an order denying matriculation for students already admitted to the School's first class. Subsequent litigation has permitted the School to continue operations during the 1975-76 academic year. The continuation of the school is now uncertain.

While the study staff notes that additional new colleges of podiatric medicine may begin operations within the next few years, the data presented in this report represent only the existing five private colleges. If new colleges do become operational during the next few years the number of students and faculty and the amount of funds involved are not likely to be large enough to significantly alter the data presented in this report.

Missions and programs

The principal missions of the colleges of podiatric medicine are the following:

1) education of podiatric medical students to the first professional degree (Doctor of Podiatric Medicine);

2) provision of advanced degree programs;

3) provision of continuing education for practitioners;

4) research in the advancement of knowledge in podiatric medicine (a mission that has largely been long neglected due to lack of money); and

5) provision of community service (this mission, too, needs to be greatly expanded).

The fulfillment of each mission in proper proportion is essential in the years ahead.

Education at the colleges of podiatric medicine consists primarily of the Doctor of Podiatric Medicine (DPM) degree program. A small portion of the graduates continue in postgraduate work -- in residency and advanced degree programs.

Continuing education programs are also offered, mainly in short seminar type sessions. These programs are expected to grow substantially in the years ahead as the states increasingly legislate relicensure requirements to include certification of periodic continuing education and refresher training programs.

One- and two-year programs for training podiatric assistants and technicians are being developed and, in fact, one program has already begun in the existing colleges of podiatric medicine.

Enrollment in DPM program

The number of students enrolled in the DPM program has grown rapidly, nearly doubling in six years as shown in the following table:

Table 1

Total Enrollment in the Doctor of Podiatric Medicine
Programs (DPM/Degree) of the Five Colleges of Podiatric Medicine

Fall Session: 1969-1975

Academic Year	Number of Full-time Students Enrolled	Percentage Increase Since 1969-70
1969-70	1,089	--
1970-71	1,129	4
1971-72	1,267	16
1972-73	1,394	28
1973-74	1,635	50
1974-75	1,836	69
1975-76	2,059	89

Source: Reports by the colleges to the Academy study staff, July 1975.

The colleges have undertaken various measures to expand their capacity to handle more students and enrollments have been maintained at maximum capacity. The demand for podiatric medical education is large (about three applicants for each one admitted) in spite of the high and rapidly rising cost because of:

- the growing demand for podiatric services and the shortages of podiatrists virtually everywhere;

- the vast improvement in the quality of podiatric medical education programs;
- the growing importance of podiatric medicine in health care delivery;
- the high earning potential of future podiatrists.

Participation in residency programs

Graduates with DPM degrees are going increasingly into residency programs prior to practice. The number of residency programs available to the graduates of podiatric medical colleges has increased substantially in recent years. In the academic year 1974-75, about 190 graduates were completing residency programs in general hospitals, general clinics, podiatric clinics, and the college clinics. Approximately 168 of the residencies were first-year positions -- equivalent to more than 50 percent of the graduates of the class of 1974.

The number of residency positions in podiatric medicine by category of medical institutions is shown in the following table:

Table 2

Approved Podiatric Medicine
Residency Programs

Academic Year 1974-75

Category	First Year	Second Year	Third Year	Total
General hospitals	134	14	2	150
General clinics	1	--	--	1
Podiatric clinics	9	--	--	9
College clinics	24	6	--	30
Total	168	20	2	190

Source: Council on Podiatry Education, American Podiatry Association, August 1974.

During the past five years the number of first-year residency positions has more than doubled. For example, in the academic year 1969-70, only 65 first-year residency programs were available to the 246 graduates of the colleges. A large part of those residency programs was in the clinics of the colleges. Since 1970 the number of resident positions in general at hospitals and clinics has increased substantially.

The number of residency positions available is still not adequate to fill the needs of graduating podiatrists. The colleges and members of the profession are continuing their efforts to expand the number of residency programs. During the next several years the number is expected to increase substantially to keep pace with the growing number of graduates. By 1980 at least 60 percent of the graduates are expected to undertake a first-year residency.

Education expenditures

The colleges of podiatric medicine have experienced rising expenditures for a number of years as a result of the need to (a) improve and expand their professional teaching programs, (b) increase and improve the teaching and clinical facilities available to students and patients, and (c) meet the costs of inflation. Net expenditures per student for podiatric medical education at the five private colleges have risen by 87 percent since the academic year 1969-70, as shown in the table that follows:

Table 3

Average Net Expenditures Per Student by
The Five Colleges of Podiatric Medicine

1970 - 1975

Academic Year	Net Expenditures Per Student	Percentage Increase Since 1969-70
1969-70	$3,401	--
1970-71	4,060	19
1971-72	4,280	26
1972-73	4,800	41
1973-74	4,930	45
1974-75	6,362	87

Source: Reports by the colleges to the Academy study staff, July 1975.

Note: "Net expenditures per student" is the measure of education costs recommended by the Institute of Medicine of the National Academy of Sciences and is estimated by subtracting total research and patient care income from total institutional expenditures and dividing by the number of students.

Despite these increases, expenditures per student at the five colleges of podiatric medicine are not yet comparable to those in other health professions. Net expenditures per student were less than half the amount spent by medical schools in 1972-73. Although comparable data year-by-year are not available, a comparison of the data that do exist on institutional expenditures for podiatric medicine and those of other health professions is in the following table:

Table 4

Average Net Expenditures Per Student by Education Institutions in Selected Health Professions

1970 - 1975

Academic Year	Medicine	Osteopathic Medicine	Dentistry	Podiatric Medicine
1969-70	n.a.	n.a.	n.a.	$3,401
1970-71	n.a.	n.a.	n.a.	4,060
1971-72	n.a.	n.a.	n.a.	4,280
1972-73	$9,700	$7,000	$7,400	4,800*
1973-74	n.a.	n.a.	n.a.	4,930
1974-75	n.a.	n.a.	n.a.	6,362

Source: Costs of Education in the Health Professions, Institute of Medicine, National Academy of Sciences, January 1974; and reports by the colleges of podiatric medicine to the Academy study staff, July 1975.

Note: Comparable data on expenditures per student by educational institutions in various health professions are available only for the one year included in the Institute of Medicine report.

* This figure, based on data from all the five colleges, differs slightly from the $4,900 reported in the Institute of Medicine study, whose sample survey included only three of the colleges of podiatric medicine.

Colleges of podiatric medicine are expected to continue to increase education quality. Expenditures per student are expected to grow to a level commensurate with other health professions and in proportion to the increasing scope of practice of podiatrists. Because this scope of practice is similar to that of the other major health professions, the costs of education are expected to be comparable.

Specialists in podiatric medical education estimate that the appropriate level of quality would cost twice as much as the actual expenditures per student at the colleges. A comparison of actual expenditures with a "constructed cost"* of podiatric medical education (as calculated in 1973 by FORE Consultants, a Washington, D.C. consulting firm) is presented in the following table:

Table 5

Average Expenditures Per Student For Podiatric Medical Education Compared With Those Developed As Constructed Cost*

1973 - 1975

Academic Year	Actual Net Expenditures Per Student	Constructed Cost* Per Student (Excluding Physical Facilities)	Percentage Increase to Bring Actual Expenditures to Constructed Cost*
1972-73	$4,800	$10,700	123%
1974-75	6,362	12,840**	102

Source: Constructed Cost of Podiatric Medicine, American Association of Colleges of Podiatric Medicine, November 1973; and reports by the colleges to the Academy study staff, July 1975.

* The constructed cost of podiatric medical education was calculated in 1973 equivalent dollars as the amount that would be needed to provide students with the highest quality podiatric medical education required by a modern society. Constructed cost is an ideal, a goal, a level of excellence to be strived for. For further details, see the full text of the above-mentioned report.

** Adjusted for inflation (20 percent over the two years).

Charges to students

The rise in education expenditures has been accompanied by a higher than proportionate increase in the amount of tuition and fees charged to students. While expenditures per student increased 87 percent between 1970 and 1975, the cost of tuition and fees increased 121 percent during the same period as shown in the following table:

Table 6

Average Tuition and Fees Per Student
At Colleges of Podiatric Medicine

1970 - 1975

Academic Year	Average Tuition and Fees Per Student (4-year Basis)	Percentage Increase Since 1969-70
1969-70	$1,366	--
1970-71	1,627	19
1971-72	1,921	41
1972-73	2,275	66
1973-74	2,628	92
1974-75	3,014	121

Source: Reports by the colleges to the Academy study staff, July 1975.

Projected expenditures and tuition

It is clear that a substantial rise in education expenditures per student can be expected in the foreseeable future due to (a) inflation and (b) the need to further improve the quality of the education programs. Neither factor can be ignored.

- The first factor is unavoidable either by schools of podiatric medicine or by other educational institutions.
- The second factor is also unavoidable if the future well-being of the public, the colleges of podiatric medicine, and of the profession itself is to be assured.

Expenditures per student for podiatric medical education will continue to move upward rapidly during the years ahead, not as fast as required to meet "constructed cost," but faster certainly than the rate of inflation.

The amount of tuition and fees charged to students will continue to rise at a faster rate than expenditures because increases in funds from other sources (federal capitation grants*, private donations, etc.) are not likely to be great (see Appendix B). Even with modest increases in funds from other sources, a dramatic rise in the cost of tuition and fees to the student is nevertheless in prospect.

As shown in the following projections prepared by the study staff, expenditures per student can be expected to nearly double in the next six years while the average amount of tuition and fees per student is likely to more than triple.

Table 7

Net Expenditures Per Student and Fees Charged Per Student by Colleges of Podiatric Medicine

1975 Projected to 1981

Academic Year	Net Expenditures Per Student by the Colleges		Average Tuition and Fees Per Student	
	Amount	Percentage Increase Over 1974-75	Amount	Percentage Increase Over 1974-75
Actual				
1974-75	$ 6,362	--	$3,014	--
Projected				
1980-81				
A	$12,500	96%	$10,000	232%
B	12,500	96	12,000	298

Note: Estimates by the Academy study staff, December 1975, based on reports submitted by the colleges and on the assumptions prepared by the staff (see Appendix A). Projection A assumes that U.S. Government grants will be about the same per student as in 1975. Projection B assumes these grants will be discontinued as proposed by the Secretary of Health, Education, and Welfare.

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* In view of the current pressure on Congress to reduce rather than increase substantially the outlays for financial support of health professions education, increased capitation appears to be uncertain.

The projections are quite reasonable when it is noted that the colleges can be expected during the next few years to:

- bring new facilities into operation;
- continue to replace the amount of contributed services now provided by part-time personnel by adding more full-time faculty to their teaching staffs, particularly in clinical areas;
- increase faculty salaries closer to parity with those of medical school faculties and in relation to incomes possible from private practice;
- decrease the teaching loads of full-time faculty members;
- increase the amount of research necessary to advance the profession;
- provide the community service increasingly required of health profession educators.

College management officials say that they see no reasonable prospect of a level of expenditures per student in the years ahead lower than those shown in the tables prepared by the Academy study staff without impairing educational quality.

If anything, the expenditure projections are probably understated. Experience over the years has shown that everything simply costs more than expected. The colleges have found this to be particularly true in the case of building and occupying new facilities which each of the colleges has recently completed or will complete in the near future.*

Other sources of income

The substantial increases in charges for tuition and fees that have taken place and will continue to take place are better understood when all other sources of income for colleges of podiatric medicine are carefully examined. The staff made such an examination for this study (see Appendix B) and found eight main sources or potential sources of operating revenues as follows:

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* The Illinois college opened new facilities in 1972, the college in Pennsylvania in 1973, and the college in California in 1975. The Ohio college's new facilities will open in 1976, and those of the New York College in 1977 or 1978.

1) Tuition and fees
2) Federal Government grants and contracts
3) State government grants and contracts
4) Private gifts, grants, and contributions
5) Income from clinic operations
6) Earnings on endowment
7) Income from auxiliary enterprises
8) Miscellaneous receipts

Operating revenues from each source for the fiscal years 1975 and 1980 projected and the proportion of the total from each source are shown in the following table:

Table 8

Sources and Amounts of Operating Revenues For Five Colleges of Podiatric Medicine 1975 and 1980

Source	Amounts for Academic Year 1974-75	1979-80* (Projected)
	(In thousands of dollars)	
Tuition and fees	$ 5,654	$22,100
Federal Government grants and contracts	3,263	4,000
State government grants and contracts	666	1,885
Private gifts, grants, and contributions	307	770
Income from clinic operations	1,963	3,600
Earnings on endowment	27	30
Income from auxiliary enterprises	21	550
Miscellaneous receipts	132	185
Total Operating Revenue	$12,033	$33,120
	(In percent of total)	
Tuition and fees	47.0%	66.7%
Federal Government grants and contracts	27.1	12.1
State government grants and contracts	5.5	5.7
Private gifts, grants, and contributions	2.6	2.3
Income from clinic operations	16.3	10.9
Earnings on endowment	0.2	0.1
Income from auxiliary enterprises	0.2	1.7
Miscellaneous receipts	1.1	0.5
Total	100.0%	100.0%

Source: Reports by the colleges to the Academy study staff, July 1975; projections are by the Academy study staff.

* For assumptions and further details, see Appendix A.

Tuition and fees have grown from 28.7 percent of total operating revenues in 1969-70 to 47.0 percent in 1975-76 and are expected to grow to 66.7 percent of the total by 1979-80 even allowing for some federal capitation payments (which, as indicated elsewhere in this report, are by no means certain).

The financial needs of the students

The podiatric medical student's total educational costs (which include expenses for living as well as for instruction) are also rising substantially (46 percent between 1971 and 1975). A student enrolled at a college of podiatric medicine in the academic year 1980-81 will find that annual expenses are more than twice those of 1974-75, as shown in the table that follows:

Table 9

Average Annual Estimated Expenses
Of Podiatric Medical Students by Expense Item

1971 Projected to 1981

Academic Year	Tuition and Fees	Books and Equipment	Room and Board	Other Living Expenses	Total	Percentage Increase Over 1974-75
1970-71	$ 1,627	$311 (a)	$2,575 (a)	$1,788 (a)	$ 6,306	--
1974-75	3,014 (b)	425 (b)	3,400 (c)	2,350 (c)	9,189	--
1975-76	3,350	450	3,600	2,500	9,900	8%
1976-77	4,000	480	3,850	2,675	11,005	20
1977-78	5,000	520	4,100	2,850	12,470	36
1978-79	6,400	550	4,360	3,030	14,340	56
1979-80	8,100	580	4,650	3,230	16,560	80
1980-81	10,000	620	4,955	3,440	19,015	107

Sources:

(a) From How Health Professions Students Finance Their Education, Health Resources Administration, Public Health Service, October 1973.

(b) From published materials of the colleges of podiatric medicine, 1975.

(c) 1970-71 costs adjusted by the aggregate increase in Consumer Price Index (31.8 percent from May 1971 to May 1975).

Note: All expenses other than tuition and fees were projected from 1974-75 allowing for 6.5 percent inflation per year.

The cost of four years of podiatric medical education for a student graduating in spring 1976 is about $35,000, as shown in the following table:

Table 10

Estimated Four-Year Cost of Podiatric Medical Education

1973 - 1976

Expense Item	1972-73	1973-74	1974-75	1975-76	Four Year Total
Tuition and fees	$2,275	$2,628	$3,014	$3,350	$11,267
Books and equipment	375	400	425	450	1,650
Room and board	2,975	3,175	3,400	3,600	13,150
Other living expenses	2,070	2,210	2,350	2,500	9,130
Total	$7,695	$8,413	$9,189	$9,900	$35,197

Source: Estimates by Academy study staff, December 1975.

For students graduating five years from now (spring 1981) the cost will be more than $60,000, as shown in the following table:

Table 11

Estimated Four-Year Cost of Podiatric Medical Education

1977 - 1981

Expense Item	1977-78	1978-79	1979-80	1980-81	Four Year Total
Tuition and fees	$ 5,000	$ 6,400	$ 8,100	$10,000	$29,500
Books and equipment	520	550	580	620	2,270
Room and board	4,100	4,360	4,650	4,955	18,065
Other living expenses	2,850	3,030	3,230	3,440	12,550
Total	$12,470	$14,340	$16,560	$19,015	$62,385

Source: Estimates by Academy study staff, December 1975.

Available information is not precise on how the students raise the funds necessary to pay for the costs of their education. In a questionnaire survey conducted by the colleges for this study, students reported that they have had to borrow a significant amount to meet those costs. When compared with earlier data (in How Health Professions Students Finance Their Education, a Department of Health, Education, and Welfare publication reporting on 1970-71 survey data), the current survey showed that the number of podiatric medical students borrowing and the amounts borrowed have increased significantly. However, the total amounts borrowed in 1975 financed a smaller percentage of the cost of tuition and fees because (1) these have risen rapidly and (2) sources of borrowing did not expand proportionately.

Students say that under current circumstances they would be ill prepared to withstand tuition increases of significant proportions over the next few years. They believe future students will be no better able than they are to finance higher tuition and fees (in addition to higher living costs).

Results of the student questionnaire survey also revealed that nearly eight out of ten students enrolled in the colleges of podiatric medicine expected they will have borrowed for some part of the cost of their education by the time they graduate (about $11,000 on the average including their undergraduate education borrowing) as shown in the following table:

Table 12

Borrowing for Education by Students Enrolled In Doctor of Podiatric Medicine (DPM) Degree Programs

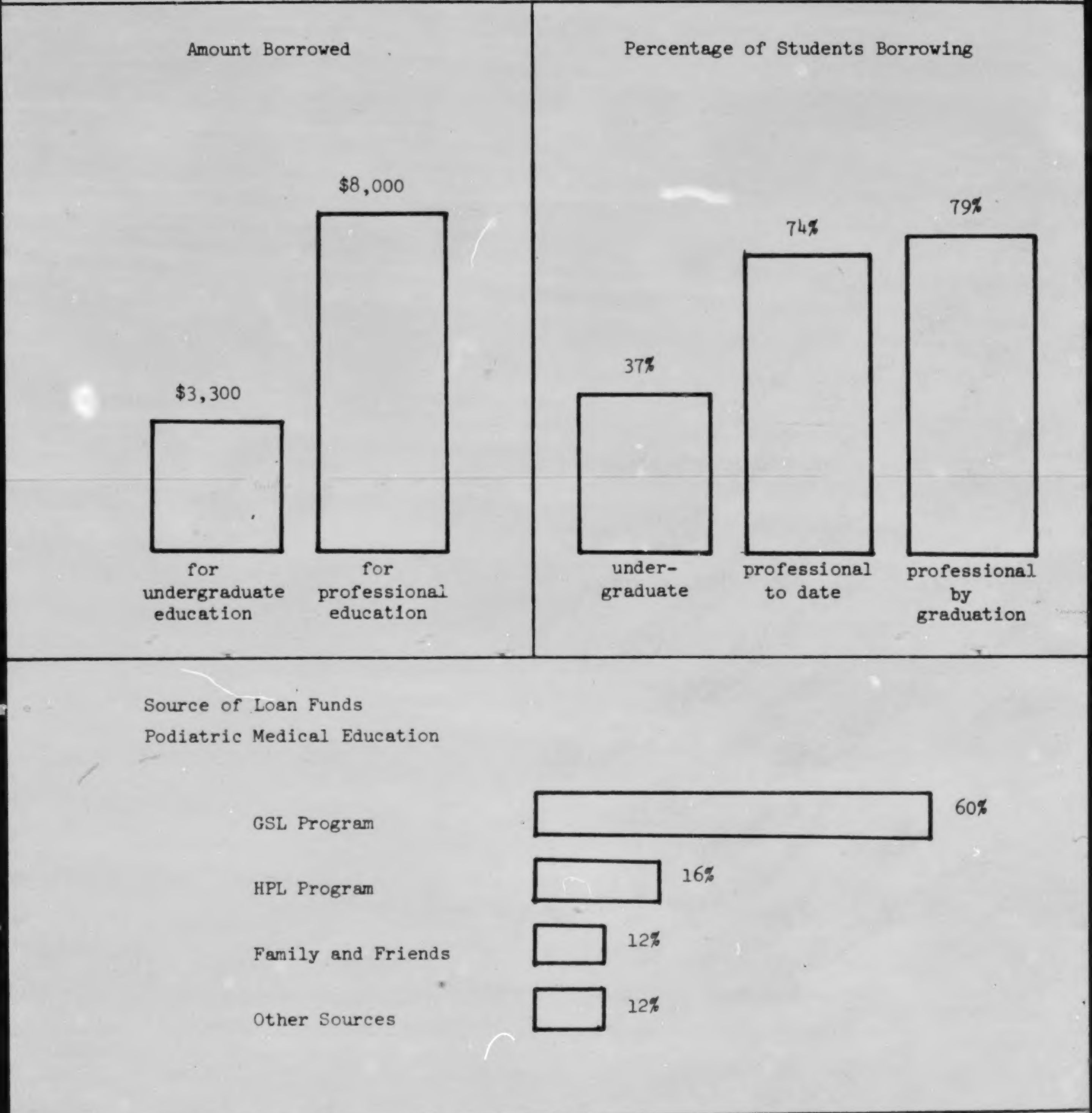
As Reported in Spring 1975

Item	Borrowed for Undergraduate Education	Borrowed for DPM Program To Date	Estimated Further Borrowing to Complete DPM Program	Total
Average amount borrowed	$3,345	n.a.	n.a.	$11,037
Percentage of students who borrowed	37%	74%	n.a.	79%

Source: Student survey conducted by the colleges of podiatric medicine for the Academy study staff. For further details see Appendix G.

CHART C

BORROWING PATTERN OF PODIATRIC MEDICAL EDUCATION STUDENTS



Source: Student survey conducted by the colleges of podiatric medicine.

The aggregate amount of borrowing by students enrolled in the colleges of podiatric medicine is growing rapidly. As shown in the following table, students who graduated in 1975 estimated borrowing in the aggregate to be more than $2 million while students who will be graduating in 1978 estimated they will borrow well over $4 million for the four years of education in podiatric medicine (the data do not include pre-podiatric education borrowing):

Table 13

Aggregate Amount of Borrowing Estimated by Students
For Four Years of Podiatric Medical Education
By Graduating Classes of 1975 to 1978

Graduating Class in Academic Year	Amount of Borrowing for Podiatric Medical Education		
	Borrowed To Date	Estimate of Borrowing To Complete Education	Total
1974-75	$1,993,000	$ 282,000	$2,275,000
1975-76	2,401,000	1,210,000	3,611,000
1976-77	2,004,000	2,304,000	4,308,000
1977-78	1,023,000	3,382,000	4,405,000

Source: Student survey conducted by the colleges of podiatric medicine for the Academy study staff, spring 1975.

Student comments also revealed that:

- A substantial proportion of the students who borrow for education under formal loan agreements also owe money to relatives and friends, and many are responsible in part for the educational loans of their spouses.
- Many students would have borrowed substantially more if it were not for the limitations imposed by government agencies and lending institutions.
- Many students are concerned about the future availability of the loan funds needed to complete their education. Some noted bleakly that if funds from current sources were reduced or eliminated, their education could not be completed.
- Students would be prepared to borrow whatever amount was required to finish their education (if funds were available) because there is no alternative; neither they nor their families can pay all the costs of their education out of current income or savings.

- Students' capacity to repay their loans out of future income looks good, particularly if the repayment period could be spread out over a long period of time (longer than the seven- or ten-year periods provided by existing loan programs).

- Students would be willing to enter the National Health Service Corps or other acceptable programs (such as practice in shortage areas) designated by government agencies if this were necessary to pay off all or part of their loan obligations after they graduate.

- Their interest in enrolling in the National Health Service Corps or acceptable programs grows in proportion to the increase in the amount of their outstanding loan debt.

Further details on the student borrowing survey are in Appendix G.

During the survey the study staff asked student aid officials at the colleges for their views on the need and extent of student borrowing. They said that:

- A substantial number of students are really being pushed at the present time to meet their current financial commitments. These students are greatly in need of new or additional sources of financing.

- Many students are working more hours outside of school to make ends meet than is appropriate for professional students who are already spending 35 or more hours a week in classroom or clinic activities. The amount of outside work undertaken by some students definitely interferes with their studies.

- Some device will have to be created to make it possible for students to pay for steadily rising tuition charges. Otherwise, the outlook is that the colleges will not be able to increase education expenditures significantly over the next few years because of a growing inability among students to finance the tuition required to meet the costs involved.

- They were concerned about the amount of interest that accumulates over the lifetime of a student loan because it increases so sharply the total cost of professional education. However, they were not able to offer an alternative suggestion.

With these considerations in mind, and in light of information on other possible sources of revenue (as shown in Appendix B), the study staff turned to the question of how a greater amount of needed institutional operating funds might be obtained from increases in tuition and fees, and how this might be done in an equitable and reasonable way. The major focus was on financing tuition increases in whole or in part by loans to students through a deferred cost of education plan which would make funds available to the colleges in the year when the operating expenses are incurred and provide for repayment by the student after practice has been started.

The case for and against a deferred cost plan and the details of alternative plans are in the chapters that follow.

II. Case For and Against a Deferred Cost of Education Plan for Students of Podiatric Medicine

Examination of the possible alternatives for financing podiatric medical education led the study staff, the Association, and the Panel to conclude that a deferred cost of education plan offered the only meaningful solution in the immediate and long-term outlook to assure the well-being -- even the survival -- of the colleges of podiatric medicine and their students. In fact, there seems to be no other way.

A number of factors were taken into consideration in reaching that conclusion. The case for and against a deferred cost of education plan was weighed by the Panel. In the Panel's judgment, the positive aspects conclusively favored the establishment of such a plan whereas the negative aspects pointed up obstacles to be overcome through the design of the plan.

The case for and against the deferred cost of education plan is summarized below.

Arguments in favor of a deferred cost plan

1) The cost of podiatric medical education has climbed rapidly in recent years and is certain to grow in the future as (a) inflation continues and (b) the colleges strive to meet the demands for improving the quality of podiatric medical education.

2) The colleges of podiatric medicine cannot continue to finance the rising costs of education within the limits of present sources of funds.

3) The Executive Branch of the Government proposes that the amount of federal capitation be reduced immediately and terminated within a few years.

4) The colleges cannot expect more than a fraction (perhaps one-third) of the cost of podiatric medical education to be covered by the funds available to them from all sources other than the students.

5) The cost of podiatric medical education will soon be so high that hardly any students will be able to provide the amount required out of current income or assets, either from their own resources or from those of their parents or friends.

6) Present loan plans for students of the health professions are not adequate to meet the needs of students of podiatric medicine or the colleges providing their education; even these plans are scheduled to be phased out in the Administration's proposal to Congress.

7) Students of podiatric medicine can be expected to have a high earning potential after they graduate with their DPM degrees, finish residency, and go into practice. They have the capacity to repay the cost of their education out of future earnings or through providing professional care services in underserved areas.

8) A deferred cost of education plan with the characteristics proposed in this report would permit:

   - the colleges to charge tuition and fees adequate to cover costs;

   - the students to obtain adequate funding for their expenditures while they are in college;

   - the Federal Government to obtain professional health care services by podiatrists in underserved areas in the future if it wished to do so and if Congress appropriated the necessary funds.

Case against a deferred cost plan

1) A deferred cost plan means borrowing. The debts incurred by students during their younger years will be a burden to them and their future families when they start to practice. Even if the earnings are high, interest and amortization on a large debt (despite the repayment periods being spread out over a substantial number of years) will make a substantial dent in future spendable income.

2) During the early years of practice a young practitioner's income also will have to cover the cost of opening an office, establishing a new home, waiting until the practice develops adequately, etc. The young practitioner can be expected to feel that the repayment of student debts during this period is especially difficult.

3) Student debt will also be a burden if the future practitioner elects to repay the obligation by practice in an underserved area (and the government agrees) where the income is likely to be low relative to what could be earned in some other part of the country. Moreover, by moving to such areas for the temporary period of service the future practitioner may also incur a good deal of additional moving and housing expense.

4) All loan programs entail substantial interest charges during the students' college years. While the amount involved may be reborrowed from the lender and not actually be repaid by the students until they go into practice, present income tax regulations would not permit interest incurred during low-income student years to be deductible for tax purposes in high-income practice years. Income averaging on tax returns may, however, be helpful.

5) Student loan programs also involve costs for life and disability insurance and service fees. Although interest and service fees are going to be necessary to make a deferred cost plan work, the charges do add substantially to the cost of education for the student. A reasonable estimate is that interest and other costs will nearly double the amount students have to pay back even if they repay the loan in the three-year period beginning after the completion of residency.

6) Loan plans tend to discriminate against women, minorities, and persons from the poorer segments of society whose lifetime earnings expectations are lower than those of other groups. Many persons in these groups are reluctant, therefore, to borrow for their education.

7) If the U.S. Government does not agree to allow a program of loan repayments through service in underserved areas, the cash repayment requirements during the early years of practice would make it difficult, if not impossible, for health care professionals such as podiatrists to engage in public service or other practice that involves little or no charge for the medical care provided. This would include, for example, service in such government agencies as the Veterans Administration, the military, the Peace Corps, and VISTA;

also patient care in hospitals, clinics, nursing homes, and health care centers catering to the poorer sections of society, and similar activities.

8) All loan plans that involve a large amount of borrowing tend to encourage practitioners, in podiatry as well as in other health care professions, to enter high paying specialties (such as surgery), to increase fees, or to establish practice in those geographic areas of the cities or suburbs in which it is easiest to provide patient care primarily to the more affluent sections of society. Although practitioners should be free to select the type and location of the practice they wish to pursue, there is no doubt that high debt obligations have practice implications which may not be consistent with future public policy.

9) Loan programs require a substantial amount of costly administrative work at the colleges, at government agencies, and among students. Loan programs also tend to encourage undesirable financial practices among those small segments of the population which are not as careful with their use of government money as they should be. Although defaults, bankruptcy, and collection practices have not been a serious problem so far in loans made to students in the health professions, the problems in other government guaranteed loan programs have received wide publicity. They emphasize the need in every loan program for a substantial amount of care in making the loans, a good deal of administrative control of the program, and intensive follow-up work in collections.

Concluding note

As indicated earlier, positive aspects of the concept of a deferred cost of education plan for podiatric medicine were the factors that influenced the Association, the Panel, and the Academy to recommend the plan proposed in this report. The plan was designed specifically to overcome the negative aspects and to provide solutions to the obstacles they presented.

Further Comments

While investigating the case for and against a deferred cost of education plan, the study staff found that:

1) The cost of education for professional persons in all of the specialities and various branches of the health field has been rising constantly for many years.

2) Existing programs for financing the educational costs of professional persons in the health fields are up for revision. They do not satisfy policy makers in the Executive Branch of the Government or Congress, or education leaders in the health professions.

3) Programs for financing the cost of education in podiatric medicine have never been and are not now adequate. Although these programs would have to be expanded in scope and in amount in order to meet the needs of podiatric medical students and the colleges, the trend, in fact, has been the other way. During the late fall of 1975, for example, the Secretary of Health, Education, and Welfare recommended to Congress that capitation payments to colleges of podiatric medicine as well as to colleges of veterinary medicine, optometry, and pharmacy (the VOPP group) be phased down immediately and eliminated within a couple of years; also that access by new students in VOPP schools to the Health Professions Student Loan Program be terminated.

4) At the same time the Secretary recommended the enactment of new programs to help finance the educational costs of students enrolled in medicine, osteopathy, and dentistry (the MOD group). The Secretary and the Executive Branch of the Federal Government regarded these professionals as being capable of providing health care services in the greatest service shortage areas -- areas which required, therefore, according to the Secretary, the greatest government support to remove health care service deficiencies.

5) In his statement to Congress, the Secretary said that no national shortage of services in podiatric medicine had been demonstrated nor was there any

specialty or geographic distribution problem. This position has been developing in the Executive Branch of the U.S. Government over a number of years under different U.S. presidents and with different officials in charge of policy at the Department of Health, Education, and Welfare. Although they are not in agreement with the Administration's priorities, the colleges of podiatric medicine and members of the profession, present and future, have noted the attitude. They believe that it is unlikely to change soon, and are ready, therefore, to support a financing plan that would be able to serve adequately the needs of podiatric medical students and the colleges far into the future, as well as the needs of the public at large which seems to require every year a greater volume of podiatric health care than before.

6) The issue to be faced by Congress, the Executive Branch of the Government, the colleges, and the members of the profession, is the problem of where the money is to come from to pay for the cost of education in podiatric medicine in the future. Within the next ten to 12 months a solution is needed for at least the next few years in order to allow the colleges to continue to operate effectively, and to permit the students to plan for their educational years as well as for their professional future.

Against this background the study staff examined the options available for the financing of the colleges of podiatric medicine and their students. Four possible options dismissed out of hand as impractical for implementation were that:

- Tuition and fees could be increased significantly, year after year, without provision of additional financing sources for students.

- Capitation grants, federal or state, could become large enough in the foreseeable future to make up the difference between present levels of tuition (or future levels as adjusted for inflation) and the total expenditures needed to be made by the colleges to provide quality education programs.

- The colleges could or should convert themselves from privately operated and controlled institutions into state-supported or state-affiliated institutions.
- The quality of education at the colleges could or should be reduced or the colleges should continue to avoid a program of continuing educational improvement.

The dismissal of these options as being impractical focused attention on a deferred cost of education plan as the most reasonable course of action for the future. Nevertheless, a number of possible variations existed within the deferred cost concept. In considering alternative plans and approaches, the study staff concentrated on developing solutions which would at a minimum permit:

- the colleges to increase tuition and fees enough to obtain a stable financial basis for current operations and to plan and implement needed improvements in program quality with less dependence on the uncertain prospects for federal financing;
- the students to obtain a substantial increase in funds to finance their education costs;
- the public in underserved areas to obtain a substantial increase in health care services by podiatrists.

A basic assumption underlying all of the deferred cost alternatives considered by the study staff was that the students could earn enough in full-time patient care practice after graduation to repay in a reasonable period of time the loans incurred for their education, or that the U.S. Government would be willing to make the providing of podiatric care in underserved areas a service eligible for government support.

While developing the case for and against a deferred cost of education plan for podiatric medicine, the study staff investigated alternative methods of financing education and examined in some detail the principal sources of revenue available to the colleges (see Appendix B). The investigation showed that conventional methods of financing education were inadequate and that no significant alternative to a deferred cost of education plan was available to the colleges.

The investigation showed further that college and university students (including students of podiatric medicine) financed their education from seven sources of funds as follows:

- funds from their parents or friends;
- funds from their own savings accumulated prior to enrolling in college;
- funds from outside work while enrolled in college;
- funds from college work-study programs;
- scholarship assistance either from government agencies, the colleges themselves, or other private sources;
- welfare, social security, veterans, and other governmental payments;
- loans, primarily those provided under the various governmental programs. (Other loans represent only a small percentage of the total borrowing.)

Loan programs were found to play a large and rapidly growing role in financing education. The study staff gathered information on seven national education loan programs and summarized their main features in a uniform format (see Appendix C). The seven programs are:

1) Guaranteed Student Loan Program (including the Federal Insured Student Loan Program)
2) National Direct Student Loan Program
3) Health Professions Student Loan Program
4) Nursing Student Loan Program
5) Law Enforcement Education Program Loans
6) United States Loan Program for Cuban Students
7) Graduate and Professional School Loan Program of United Student Aid Funds, Inc.

The study staff found that existing loan programs were not adequate for many graduate and professional school students. Only two of the programs noted above (the Guaranteed Student Loan Program and the Health Professions Student Loan Program) were available to students of podiatric medicine; and the amount of funds available under those two programs was far too little.

While the Guaranteed Student Loan Program has a loan ceiling of $7,500 for undergraduate education, only $2,500 has been added to the ceiling for graduate and professional education and the availability of even this amount has depended upon the student's ability to find a lender willing to lend the money.

The loan ceiling under the Health Professions Student Loan Program has been set at $3,500 per year, but the total amount of funds appropriated by Congress each year has been so little that, after they are apportioned among all the needy students, only a small fraction of the total need has been met.

The staff found that the comparison of details of the various loan programs in Appendix C provided a helpful reference for developing a deferred cost plan for podiatric medical students.

III. A Funding Plan and a Course of Action

This chapter outlines the proposed deferred cost of education funding plan for podiatric medicine recommended in this report and a course of action to be followed by the colleges, the students, the government, and the lending institutions to put the plan into operation.

Present funding programs and those being considered by Congress and the Administration do not solve the problem of financing podiatric medical education. The plan described in this chapter is designed to solve the problem. It would permit:

1) Every college of podiatric medicine to charge an amount for tuition and fees adequate to operate the institution at higher levels of quality with less dependence on federal funding than in the past.

2) Every student, whether needy or not, to borrow all or nearly all of the education cost from a private lender in the form of a government guaranteed loan, in return for signing a contract with the government to provide three consecutive years of full-time professional patient care service in an underserved area after graduation and residency.

3) The U.S. Government to assist students finance their education with no direct outlay of cash for costs of education by guaranteeing the loans from the private lenders; and subsequently to pay for professional patient care services in underserved areas as they are rendered.

4) The lender (for example, a group of banks, insurance companies, pension funds, etc., perhaps administered through an independent organization acting as agent, such as United Student Aid Funds, Inc.) to pay the money to the student or the college, receiving in return a note guaranteed by the U.S. Government.

In effect, the plan proposed in this report would establish in advance an option for the U.S. Government to finance to the extent deemed necessary in future periods, professional health care services in underserved areas. When students are ready to practice, they also would have the option of repaying the borrowed funds either in cash or in the service for which they have committed themselves.

The expectation is that the amount borrowed for education costs (including interest, insurance, and service charges) will be high enough to make it worthwhile for many students to provide the three years of future service contracted for. Nevertheless, if the amounts involved do not turn out to be high in relation to the students' immediate earning potential in the years after residency, students could choose to repay the loan in cash, and the government would have incurred no expense for the cost of their education.

The proposed deferred cost of education plan is as follows:

1) Federal legislation would be enacted through which the U.S. Government would guarantee loans to podiatric medical students who contract to serve in underserved areas after graduation and residency.

2) Every student enrolled in the first professional degree (DPM) program at a college of podiatric medicine would be entitled to borrow under the plan an amount equal to (a) tuition and fees, and (b) the cost of room, board, and books (as determined by the regulations established for the plan), and (c) the accumulated interest and other borrowing costs accrued on previous loans for podiatric medical education.

3) The lender would be individual banks or insurance companies or a separately incorporated company, such as United Student Aid Funds, Inc., acting as the agent for a group of banks, insurance companies, pension funds, etc., or a separate company with access to the capital markets such as the Student Loan Marketing Association.

4) The amounts borrowed would be evidenced by notes signed by the students and guaranteed by the U.S. Government. The notes would bear a rate of interest that would make the loans competitive with other investment opportunities of the lender (say the three-months U.S. Treasury bill rate plus three percent), plus appropriate charges for insurance and for servicing the loans.

5) The principal of the notes plus the accumulated interest and other borrowing costs would be payable in three equal annual installments starting at the end of the first year after the student expects to receive the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate education program including residency.

6) The contract with the U.S. Government for professional services would provide that for each consecutive year, up to three years, of full-time professional podiatric service in a designated underserved area, the government would pay one-third of the balance of the notes outstanding as of the date service begins plus interest and other borrowing charges. The minimum service commitment would be two years.

7) The loan agreement would be accompanied by a life and disability insurance policy, the face amount of which would be equal to the outstanding loan balance including accumulated interest, cost of insurance, and service fees.

8) Students would be entitled to repay the notes, including the accumulated charges and interest, in cash if they did not wish to or could not provide service in an underserved area required by the contract.

9) Congress could also choose to authorize the Federal Government to repay loans for other public service work by graduates, such as service in ACTION, the Peace Corps, VISTA, the National Health Service Corps, or active military service.

10) Congress also could provide for the Federal Government to repay loans of students under conditions of extreme hardship (such as a student from a low-income or disadvantaged family who failed to complete the podiatric medical education program, was in exceptionally needy circumstances, and could not be expected to resume study within three years).

Further Comments

A number of major questions raised during the development of the plan as well as those mentioned specifically in the contract between the American Association of Colleges of Podiatric Medicine and the Health Resources Administration are discussed below:

1. Why are the present loan programs for students in the health professions not adequate, and how does the proposed plan overcome the difficulties?

For ten years the U.S. Government has been supporting student loan programs designed to assist students being trained for the health professions. These programs have been criticized by Congress and the Executive Branch of the Government because they did not meet student or college needs, cost too much, or did not provide service in underserved areas. The study staff believes that in the past loans did not meet the goals set for them because Congress and the Administration failed to:

a) provide enough money to meet the financial requirements of the educational institutions, or even of students who could prove acute financial need;

b) establish an adequate *quid pro quo* for the provision of professional health care services in underserved areas; and

c) make clear the philosophy behind the financial aid plans supported by the government.

Widespread differences of opinion and confusion have existed about the extent to which the financial aid policies of Congress and the Administration have been intended to help (a) the colleges to provide better education programs, (b) the students to obtain costly professional training, or (c) the public, especially residents of underserved areas, to obtain an increased amount of health care services. The relative importance of these several goals has never been defined.

The deferred cost of education plan for students of podiatric medicine proposed in this report is designed to overcome the deficiencies of past plans in a straightforward and direct manner. In effect, the plan would establish in advance an option for the U.S. Government to finance to the extent deemed necessary in future periods professional health care services in underserved areas. When students are ready to practice, they would also have the option of repaying the funds provided either in cash or in the service for which they have committed themselves.

The study staff and the Panel believe that in the future the amounts borrowed to meet education costs will be high enough to induce many students to choose the service commitment. Nevertheless, if the amounts due involved do not turn out to be high in relation to the immediate earnings potential in the years after residency, students could arrange to repay the loan in cash and the government would have incurred no cost for the education involved.

2. What assumptions were made by the study staff in developing the plan?

A number of assumptions were made by the staff to serve as the basis on which to construct the characteristics of a deferred cost of education plan. To the extent the assumptions are valid (either for podiatric medicine or for other health professions) the plan is well suited to achieve the expected goals. The assumptions are that:

With respect to national public policy

a) Congress will conclude that the country's need for health care personnel, including podiatrists, will be so great for the next five to ten years that the U.S. Government will have to continue to support professional education for a substantial number of students in the health care fields.

b) Congress will search for new or alternative methods of financing or providing this support because the potential cost will be so great.

c) In looking at new financing mechanisms, Congress may be more favorably inclined toward supporting programs of financing students in the health professions than toward programs which involve the financing of institutions educating professionals for the health care field.

d) Congress will be more favorably inclined toward supporting programs involving guarantees of loans to students by private lenders than programs involving direct cash outlays through appropriations for either loans or grants.

e) Congress may consider supporting programs that establish a contract providing for a period of full-time professional patient care service after graduation and residency in underserved geographic areas in direct return for the amounts loaned.

f) Congress will continue to authorize and appropriate some funds for capitation grants for colleges of podiatric medicine as well as for other colleges, universities, and professional schools providing education for the health professions.

With respect to the colleges of podiatric medicine

g) The colleges will have to double their charges for tuition and fees in the next five years in order to meet the cost of inflation and enhance the quality of the professional education beyond that now being provided.

h) The colleges will continue their already extensive efforts to upgrade their academic programs and their facilities during the next five-year period and to increase the proportionate number of full-time faculty members.

i) The colleges will continue their search for new sources of funding. Some of these may come into being in the next few years (for example, capitation grants by state governments, contracts between the state governments and the individual colleges of podiatric medicine for the providing of educational services, etc.). New sources of funding are, however, not likely to finance more than a small proportion of educational costs.

j) The colleges will continue to search for scholarship funds for needy students beyond the amounts available from loans. Their boards will agree that (a) scholarship funds are the responsibility of donors recruited by the boards or the management executives of the colleges of podiatric medicine or of government agencies, (b) scholarship funds are not the responsibility of financially-able students, and (c) scholarship funds should not be included in the portion of the operating budgets of the colleges which is financed by tuition and fees.

k) The colleges will continue to carry on private fund raising aggressively. The amounts raised will increase substantially during the next five years, but will be earmarked mainly for new construction and renovation, new equipment, or amortization of already completed capital improvements, endowment, and scholarships. No significant amount of private gifts will be available for the regular operating budgets.

l) The colleges will expand research for the improved care of patients and for the advancement of the profession which will be carried on part-time by members of the faculties. Nearly 100 percent of the costs involved, however, including overhead, will be financed by grants from Federal Government agencies (such as the National Institutes of Health), private corporations, and other contributors.

m) The colleges will provide a significant amount of public service in the future for which no compensation will be provided. The cost of this service will be absorbed by the colleges or their faculty members and administrative personnel within the funding available from sources other than students.

n) If new colleges of podiatric medicine are established during the next few years, or if the School of Podiatric Medicine of the State University of New York at Stony Brook becomes operational, the number of students and faculty involved and the budget commitments are not likely to be large enough to alter significantly the trends shown in this report.

With respect to students of podiatric medicine

o) Students cannot be expected to meet the rising costs of tuition, fees, room, board, and books from the sources of funds now available.

p) Students can expect earnings in the future from professional practice to be large enough to enable them to repay education loans of the amounts mentioned in this report. If a program of national health insurance is created and involves changes in the economic pattern for practitioners in the health fields, the program can be expected to include provisions for satisfying the educational loan obligations incurred by podiatrists as well as by other types of health care professionals.

q) Students can be expected to follow the sharp rise in the cost of education with concerted demands on government officials for new loan and scholarship programs, forgiveness provisions, service corps opportunities, etc.

With respect to the national economy

r) High income and productivity for the country as a whole will continue; spending patterns will include increasing amounts for professional health care services, including podiatric medicine.

s) Inflation will continue at the rate of six or seven percent a year, on the average, and will be one factor increasing the operating costs of colleges of podiatric medicine as well as other private colleges and universities in the country.

t) The tax laws will continue to facilitate and encourage philanthropic giving to higher education, including contributions to colleges of podiatric medicine.

3. How would the proposed plan actually operate?

During the course of the study, the staff worked out a number of operating suggestions for the proposed plan, as shown below. All suggestions are subject, of course, to a further review by government officials, potential lenders, legislative draftsmen, and other specialists who might be involved in getting the plan underway.

a. Program Administration

1) Loans would be made to the students by private lending institutions and guaranteed by the Federal Government.

2) Loans would be made at the discretion of the lender to students who presented:

   - Certified statements that they have matriculated and are currently enrolled and in good standing in a program leading to a doctor of podiatric medicine (DPM) degree at an accredited college of podiatric medicine; and

   - Agreements signed by the students and a representative of the Secretary of Health, Education, and Welfare, providing for a maximum of three years of professional service by the students in a designated underserved area in return for repayment of part or all of the loan by the Secretary of Health, Education, and Welfare, such service to begin after completing education, and after residency requirements have been completed.

3) A separately incorporated company, such as United Student Aid Funds, Inc. (USA Funds, Inc.), would serve as agent for groups of banks, insurance companies, pension funds, and similar institutions to help assure access to loan funds and to provide professional administration of the loan program.

4) Additional capital for loans would be provided by a separate company, such as the government-sponsored Student Loan Marketing Association (Sallie Mae), which would serve as a secondary market and warehouse for student loan paper.

b. Program Responsibilities

1) Lenders: Responsibility would be to make and collect loans and inform the colleges and the Government of the status of outstanding loans. In cases of

delinquent loans, lenders would have to make every reasonable effort to collect the amounts due before submitting claims for payment by the Government. Loan checks would be drawn in the name of the student and mailed to the colleges.

2) Federal Government: Responsibility would be to guarantee loans, prepare and make available administrative guidelines and forms, designate underserved areas, enter into agreements with students for underserved area practice, repay loans in accordance with the provisions of the agreements for practice in underserved areas, process claims, if any, for payment on defaulted loans, and take any actions necessary to enforce the contracts for service in underserved areas.

3) United Student Aid Funds, Inc. (or a similar organization): Responsibility would be to organize groups of lending institutions to make available enough loan funds to meet students' needs.

4) Colleges of Podiatric Medicine: Responsibility would be to provide financial counseling to students, assist them to prepare required loan applications and documents, maintain addresses of student borrowers who graduate or otherwise leave the college, notify the lender of all borrowers who drop out or otherwise leave the college without completing the degree program, provide (upon request by the Federal Government or the lender) the current addresses of student borrowers who are delinquent or have defaulted on the payment of their loans, notify the American Podiatry Association of all graduates who default on the repayment of their loans, provide an estimate, one year in advance, of the amount of loan funds likely to be needed by their students.

5) Student Loan Marketing Association (Sallie Mae) or a similar organization: Responsibility would be to offer to purchase from lenders student loan paper, raise capital for that purpose by selling bonds and other securities using student loan paper as necessary for collateral, offer loans to lending institutions secured by its holdings of student loan paper as collateral, and carry out collections on student loans in its possession in the manner prescribed above for lenders.

6) Student Borrowers: Responsibility would be to sign agreement in conjunction with first loan application to serve after graduation and completion of residency in designated underserved areas, make application not later than six months prior to first loan payment due date to serve in such an area, inform college after leaving of current address, and repay loan if decision is made not to practice in an underserved area.

c. Eligible Lenders:

- would be financial institutions subject to examination and supervision by state or Federal Government agencies and other organizations approved by the Secretary of Health, Education, and Welfare.

d. Eligible Institutions:

- would be accredited institutions of higher education offering a Doctor of Podiatric Medicine Degree Program.

e. Eligible Students:

- would be persons matriculated in an eligible school as full-time students in a program leading to a Doctor of Podiatric Medicine Degree.

f. Amount of Loan:

1) The maximum loan each semester would be limited to 100 percent of the cost rounded to the nearest $100 of the total of tuition, fees, room, board, books, and the accumulated amount of interest and other borrowing costs accrued on previous loans for podiatric medical education.

2) The minimum amount that could be borrowed (to limit the amount of administrative work) would be $500 each semester or quarter.

3) The administrative guidelines would specify the fixed amount of allowances at each college for education expenses other than tuition and fees; the allowance would be based on the estimated average cost of these expenses at each college for an unmarried student.

g. Loan Terms:

1) Certificates: Each borrower would have to present a certified statement of matriculation and current enrollment in good standing.

2) Service Agreement: Each borrower would have to present an affidavit signed by the authorized official of the college indicating that a signed contract between the student and the Secretary of Health, Education, and Welfare, or his representative, is in force.

3) Promissory Note: Each borrower would have to sign a promissory note for the loan received.

4) Due Date: Repayment would be due in three equal annual installments, the first one due one year after the student expects to receive the DPM degree, ceases to be a full-time student, or completes an accredited or approved postgraduate education program including residency. Loans could be prepaid at any time without penalty. The Federal Government would pay each annual installment, including accumulated interest and other borrowing charges, which fell due while the student was serving in an underserved area under the terms of an agreement entered into with the Secretary of Health, Education, and Welfare.

5) Interest: Interest would accrue from the date of the loan at an annual rate equal to the three-months Treasury bill rate on the day the loan was issued plus three percent computed on the outstanding balance and would be payable at the end of each year the loan was outstanding.

6) Service Fee: A fee equal to one and one-half percent of the principal amount of the loan would be charged to cover servicing the loans and administration of the loan program.

7) Insurance: A life and disability insurance policy would be issued on each borrower equal to the amount of each loan including accumulated interest and other borrowing charges.

8) Deferment: No provision for deferment periods would be made.

Some further information on how the plan would work, put together in a short question and short answer format, is in Appendix K.

4. What government involvement is required to put the plan into operation?

The deferred cost of education plan proposed in this report would require the Federal Government to:

a) establish the plan by an act o[illegible]gress which would designate an existing agency of the Executive Branch to be responsible for administering the program and indicate the limitations of and constraints under which the program would be operated;

b) guarantee the loans made to the students;

c) contract with the students for the provision of professional health care services in underserved areas after graduation with a DPM degree and residency (if undertaken) has been completed;

d) authorize and then appropriate the necessary amount of funds needed to repay the loans made to the students when the services are rendered in the underserved areas;

e) determine the location and boundaries of those parts of the country (including, if necessary, sections of cities and other communities) which would be considered as underserved areas for podiatric medical services;

f) determine which other services, if any, (such as active military service, or enrollment in the Peace Corps, ACTION, VISTA, Public Health Service, National Health Service Corps, etc.) also would qualify for repayment of education loans under arrangements similar to those established for practice in underserved areas;

g) determine what constitutes the rendering of acceptable podiatric medical services in underserved areas;

h) arrange for the podiatric medical services rendered in the underserved areas to be monitored by an individual, organization, or agency representing the interest of the government;

i) arrange for repayment to the lender of the amount due on the loan when the services have actually been provided in accordance with predetermined standards and requirements;

j) arrange for repayment to the lender of amounts due on defaults.

Although the list of Federal Government activities required to put the plan into operation is a long one, the study staff notes that the U.S. Government has already undertaken similar activities in one or another of the health professions loan programs. Moreover, all of the activities listed could be undertaken, executed, and monitored adequately by the National Health Service Corps if persons participating in the loan program were enrolled in the Corps during the period of service in underserved areas.

It would also be possibie for the government to subcontract some of the activities listed above to non-government agencies on a fee basis. Although this procedure would avoid adding to the number of government employees, it might cost more in the long run because of the additional organizations that would be involved.

5. What would the plan cost the government?

The cost of the proposed plan is obviously important. The proposal is that to the Federal Government there be:

a) no cost through this program for the support of any students during the period of professional education and residency;

b) cost only during the period when services are being provided in underserved areas;

c) cost only in the form of expenditures for the repayment of loans incurred by students for their professional education in return for professional health care services rendered in underserved areas;

d) cost, if any, for payment to a lender of amounts in default. Because of the repayment for service provisions these amounts are not expected to be large.

Under the plan, a contract would exist whereby the Government agreed to purchase services from a practitioner rather than make a grant to a student for education. The government would expect to receive services and the practitioners would expect to provide, upon request, any services they are qualified to deliver. These services would be expected to be provided at professional standards of quality and under regulations as to fees to be charged and other professional matters established jointly by the profession, the licensure agencies, and the government.

The aggregate cost to the government for the purchase of services in any one year would depend upon how many of the new practitioners chose to serve in underserved areas in that year. As indicated earlier, the study staff believes that education costs in the future will be so high that a large proportion of the students will borrow, and that by the early 1980s a substantial percentage of new practitioners will be rendering service in underserved areas. Some illustrative assumptions on the number of practitioners who might be involved and possible cost to the government are in the table that follows:

Table 14

Estimated Cost to the Government for The Purchase of Podiatric Medical Services in Underserved Areas*

1977 - 1985

Year	Number of Practitioners Who Might Be Involved	Average Amount Of Loan Debt Per Practitioner Involved	Amount of Loan Submitted For Repayment Per Practitioner	Total Repayment (Cost to the Government) Involved
1977	100	$12,000	$ 4,000	$ 400,000
1978	150	15,000	5,000	750,000
1979	200	18,000	6,000	1,200,000
1980	300	21,000	7,000	2,100,000
1981	450	24,000	8,000	3,600,000
1982	650	27,000	9,000	5,850,000
1983	900	30,000	10,000	9,000,000
1984	1,200	33,000	11,000	13,200,000
1985	1,500	36,000	12,000	18,000,000

* Based on the assumption that the Secretary of Health, Education, and Welfare will purchase services through the repayment of loans under the Health Professions Loan Program until 1981 and under the Deferred Cost of Education Plan thereafter.

The government's involvement in the guarantee of loans to students of podiatric medicine would require, of course, much greater amounts than the actual expenditures for service in any one year shown in Table 14. Some illustrative estimates of the aggregate amount of loan funds that might be required to be guaranteed for students of podiatric medicine were made by the study staff, based upon assumptions used elsewhere in this report on the number of students expected to be enrolled in the future, the number of students expected to borrow, and the amount expected to be borrowed per student to meet education costs. The figures are in the table that follows:

Table 15

Estimated Amount of Guaranteed Loans Required
By Deferred Cost of Education Plan
For Students of Podiatric Medicine

1977 - 1983

Academic Year	Number of Students Enrolled for DPM Degree	Average Tuition and Fees	Average Tuition, Fees, Room, Board, and Books	Cumulative Amount of Loans Required	
				To Cover 100 Percent of Tuition and Fees	To Cover 100 Percent of Tuition, Fees, Room, Board, and Books
				(In millions of dollars)	
1976-77	2,219	$ 4,000	$ 8,330	$ 8.9	$ 18.5
1977-78	2,406	5,000	9,620	20.9	41.6
1978-79	2,530	6,400	11,310	37.1	70.2
1979-80	2,601	8,100	13,330	58.2	104.9
1980-81	2,648	10,000	15,575	84.6	146.1
1981-82	2,708	12,200	18,135	117.7	195.2
1982-83	2,716	14,500	20,820	157.1	251.7

Source: Estimates by the Academy study staff, December 1975.

Although the amount of guaranteed loans required to cover 100 percent of tuition and fees for the next seven years ($157 million), or 100 percent of the tuition and fees plus room, board, and books ($252 million), seems large in comparison to amounts previously involved in the Health Professions Student Loan Program, a more relevant comparison is with the amounts involved in other government lending plans designed to surmount important barriers to educational opportunity. The most comparable situation is the Guaranteed Student Loan Program for undergraduate students (see Appendix C). Started in 1966 and involving both federal and state guarantee agencies, that program had guaranteed $8 billion of student loans made by banks and other lending institutions by 1975 as shown in the table that follows:

Table 16

Amount of Loans Outstanding in the
Government Guaranteed Student Loan Program

1966 - 1975

End of Fiscal Year	Amount
1966	$ 77,000,000
1968	762,000,000
1970	2,288,000,000
1972	4,634,000,000
1974	6,973,000,000
1975	8,020,000,000

Source: U.S. Office of Education, September 1975.

The proposed loan program for students of podiatric medicine would be only a fraction in size of the government's largest guaranteed loan program and would be unlikely, therefore, to be beyond the capacity of the lenders who might be involved.

6. How should students be involved in the operation of the deferred cost of education plan?

The study contract indicated that a portion of the analysis undertaken should include (a) "a consideration of student involvement in college administrative functions and the limitations of that involvement;" (b) "a program for financial counseling of students, if determined necessary, as a result of implementing the plan;" and (c) "a procedure for involving students in determining the amount of loans to be made."

The plan proposed in this report would make it necessary for Congress to establish the general characteristics of the loans to be made, designate an existing administrative agency to guarantee individual loans for the government, indicate the institutions eligible to make the loans, specify the amount of loans that might be made, the interest rate and other terms of the loan, provide details of the repayment mechanism, and authorize the designated administrative agency to prepare and publish rules and regulations under which the plan would operate.

Agency officials no doubt would ask the colleges of podiatric medicine and their students for advice and counsel prior to the publication of the rules and regulations, and certainly would invite comments on them between the time the preliminary version was promulgated and the final version went into effect. This is standard government procedure.

The standard procedure also would provide for adequate participation by students. Students of podiatric medicine already have established a national student organization which has been functioning and active for some years, and is supported by and affiliated with local student organizations on the campus of each college. These groups are capable of representing students in all discussions or policy-making meetings about student loans, the administrative arrangements or procedures with respect to loans or the operation of the colleges, or determining the amount of loans to be made. No new or further arrangements would be required.

A need does exist, however, for additional student counseling and practice management education by the colleges as discussed in Appendix F. If the proposed loan plan is adopted, the colleges should undertake a comprehensive program of counseling activities designed to help the students to:

a) determine for themselves before beginning the podiatric medical education program whether the amount of time and money required to earn the degree will be a sound investment for their future;

b) plan an overall long-term financial program based on their needs during college attendance and their probable financial needs and earning capacity after graduation;

c) make the best decisions possible during the period of professional education with regard to the financial emergencies or difficulties that might arise;

d) make feasible plans for meeting after graduation and residency the financial obligations incurred during the professional education years;

e) develop a thoroughly prepared plan for professional practice.

In addition, colleges of podiatric medicine and the state and national professional associations of podiatrists should give increasing attention to the students' future needs as practitioners by:

a) establishing continuing education courses on financial management and the management of a professional practice;

b) organizing cooperative arrangements designed to help new practitioners find locally much of the professional and personal assistance, guidance, and advice they need among the people who live and work nearby, preferably in their own communities;

c) organizing local seminars, forums, and professional meetings, with programs aimed at providing background on business economics, taxation, management, typical problems of financing professional practice, etc., as part of programs providing technical and scientific information to the profession.

7. Would the proposed plan be acceptable internally to the colleges?

The study staff checked the plan proposed in this report from time to time as it was developed with representatives of the colleges and the students. Their reaction was, and is expected to continue to be, generally favorable because of (a) the great need for funds by the colleges, (b) the need for loan assistance by the students, and (c) the lack of more attractive alternatives.

Midway during the course of the study the American Association of Colleges of Podiatric Medicine testified on health manpower legislation before the Subcommittee on Health of the Committee on Labor and Public Welfare of the United States Senate, and recommended the plan proposed in this report saying:

> We strongly recommend that the Senate Subcommittee on Health adopt the approach recommended here for new health manpower legislation.
>
> This would provide a mechanism for adequately funding colleges of podiatric medicine through increased financial responsibility by students who, when they enter practice, will enjoy income levels among the nation's highest.

> This plan, also recognizing fiscal constraints facing government, would require virtually no additional outlay of government funds unless it decided on a loan repayment aspect as a means of ameliorating geographic maldistribution of podiatrists.
>
> This plan, also acceptable to students of podiatric medicine, appears to us to provide reasonable solutions for all parties concerned: colleges, students, government, and, ultimately, society as a whole.

The Association's statement was approved prior to its presentation by all of the colleges of podiatric medicine and by the American Podiatry Students' Association. Subsequent to its presentation, the statement received further circulation and was generally endorsed.

8. Would the program plan be acceptable externally, say, to potential lenders or to educators in the health professions?

During the study the staff discussed the proposed plan with representatives of the Subcommittee on Student Loans of the American Bankers Association and representatives of the United Student Aid Funds, Inc., the largest private guarantor of student loans in the country. The persons contacted favored guaranteed loans to students of podiatric medicine as long as the loans carry a competitive rate of interest as proposed in this report.

The potential lenders used the opportunity to observe that previous government loan plans did not carry competitive rates of interest and had to be supplemented by payments made under special legislation. On many occasions, the return was not adequate to compensate the lender for the cost of money, the administrative activities, and the risk.

The study staff and the Association also discussed the plan with representatives of other health professions educational groups. Representatives of the medicine, osteopathic medicine, and dentistry professions preferred the plan being proposed for them by the Administration which included continued capitation and a favorable lending program. In response to reservations about the plan expressed by the Association of American Medical Colleges, the American Association of Colleges of Podiatric Medicine replied:

> We can agree with many of the reservations which you have about this program. We share those reservations and have our fingers crossed about the ultimate outcome should the program be implemented.

> Perhaps what you don't understand is the extent of our dire needs, both for the colleges and the students. Were the community of medical colleges to have the degree of financial need which colleges of podiatric medicine currently experience, perhaps you too would be sticking your neck out in a desperate attempt to resolve the dilemma. As two examples, not only is the level of capitation for podiatry very low, it is threatened with a three-year phase out, and podiatry students, although eligible, currently are not receiving National Health Service Corps scholarships.

9. Does the proposed plan involve any unique legal problems?

The study contract indicated that a portion of the analysis undertaken by the staff should include a consideration of the legal problems that might arise in connection with the establishment or the regular operation of the plan.

As indicated earlier, the plan proposed in this report closely follows the pattern of other student loan programs established by the Federal Government. The rules and regulations promulgated for these plans clearly span the broad range of the Federal Government's legal interests. Federal agencies have, for example, already examined the legal implications of and surmounted the obstacles involved in federal guarantees of loans to students of podiatric medicine, federal arrangements for students to serve in underserved areas in return for loan repayment by the Secretary of Health, Education, and Welfare, federal determination of the terms, conditions, and procedures under which the loans are to be made, the interest rate to be charged, the collection terms, default determination, etc.

In the study staff's opinion, the proposed plan does not include any new provisions for which a special analysis is required of the legal implications for the Federal Government.

However, legal problems may arise in some states where the usury laws may prevent the making of loans for the period proposed in the plan in this report at an interest rate equivalent to the three-months Treasury bill rate plus three percent. The laws that govern lending and interest rates and the determination of what constitutes usury differ in each of the fifty states. Variations also exist with respect to the specific categories of loans that may be involved; for example, the laws are different with respect to small loans, installment loans, automobile loans, commercial loans, mortgage loans, etc. (see Appendix H for further details).

10. What would happen if appropriations for loan repayments were inadequate to cover the outstanding debts of those new practitioners who wished to provide service under their contracts with the government?

If appropriations were inadequate to cover the repayment of all or a portion of the debts of those who wished to serve in underserved areas, the Secretary of Health, Education, and Welfare would have to establish a priority list. This list could establish priorities with respect to either (a) the classes of students who would be allowed to provide service, or (b) the underserved areas which would be provided service first, or (c) the maximum amount that could be considered for repayment for any individual student.

Inadequate appropriations might also require the extension of the maturities for the refinancing of the debts of those to whom the option of repayment for service were denied. Few new practitioners would be able to repay their obligations in cash within three years after the completion of their residencies, but they might be able to manage repayment quite adequately if the maturities were spread over 15 to 20 years.

The Deferred Cost of Education Plan proposed in this report assumes that Congress will recognize the need for providing podiatric medical service in underserved areas and will authorize the Secretary of Health, Education, and Welfare to make the necessary arrangements. Obviously, no session of Congress sitting during the next year or two could commit the actions of a session of Congress five to ten years hence. Nevertheless, the study staff believes that Congress will note that podiatric medical services are required in many underserved areas in this country; and that the proposed plan would provide a mechanism for obtaining and providing those services in adequate quantity and of high quality within a foreseeable period of time.

IV. Alternative Plans

The study staff prepared four alternative deferred cost of education plans which could be considered in the event that the plan proposed in Chapter III of this report was not implemented.

Alternative plan #1 would be to establish a revolving student loan fund with a private guarantor organization (such as United Student Aid Funds, Inc.). A College Security Fund would be created as a financial base to secure from lending institutions as much as ten times the amount of the fund in student loans. The Federal Government would provide in lieu of capitation grants startup funds totaling say, $7 million over five years, which would make available $70 million in student loans (assuming that the security fund could generate ten times its amount in student loans).

Alternative plan #2 is nearly the same as alternative plan #1 with the principal exception that the College Security Fund would be established with contributions from private donors, foundations, state governments, and funds from the internal operations of the colleges.

Alternative plan #3 would be to amend the present Guaranteed Student Loan Program with respect to health professions students as follows: (1) raise the borrowing limit to $25,000 (from the $10,000 now existing, which includes loans incurred for undergraduate education); (2) raise the maximum rate of interest chargeable to students from seven percent to eight percent; (3) increase from three percent to four percent the maximum amount of the special allowance paid by the U.S. Treasury as a partial interest subsidy on guaranteed student loans; and (4) extend the grace period to three years (from the existing one year period after the borrower ceases to be a full-time student) in order to allow enough time for residency training and establishment of a practice.

Alternative plan #4 would be to expand the existing Health Professions Student Loan Program as follows: (1) raise the borrowing limit to a maximum of $7,000 per academic year, or the amount of financial need, whichever is less; (2) liberalize substantially the needs formula; (3) increase the grace period until three years after graduation or the student ceases to be enrolled full-time; and (4) establish the program as an entitlement to be funded each year in the aggregate amount necessary to cover the loan requirements of all the students according to their needs as determined by the needs analysis formula.

Each of these alternatives is a viable plan. Any one of them would serve as a major step toward solving the problem of financing podiatric medical education because each one meets the basic objectives of a deferred cost plan by permitting:

- the colleges to increase tuition enough to obtain a stable financial basis for current operations and to plan and implement needed improvements in program quality with less dependence upon federal financing;

- the students to obtain a substantial increase in funds to finance their educational costs;

- the government to obtain a substantial increase in the health care services provided by podiatrists in underserved areas (because more graduates would be induced to practice in those areas as a result of the increased amount of borrowing available which would be repaid by the Secretary of Health, Education, and Welfare for services rendered).

However, in the opinion of the Association, the Panel, and the study staff, the plan recommended in Chapter III offers a more effective solution to the problems of financing podiatric medical education and is, therefore, the one recommended for adoption.

Further Details

The implementation of the recommended new financing plan, as noted in Chapter III, would require a number of actions by various groups, including Congress, appropriate Federal Government agencies, United Student Aid Funds, Inc., the Student Loan Marketing Association, the colleges of podiatric medicine, and perhaps others. However, the failure of any of these groups to take the required actions should not be allowed to become an obstacle that would block the implementation of a needed new financing plan.

Many alternatives for financing podiatric medical education were considered by the study staff as it proceeded to develop a plan. Some were rejected as undesirable, inadequate, or unworkable, or unlikely to be acceptable by the parties to be involved, i.e., government, lending institutions, the students, the profession, etc. In this section the four workable alternative plans are presented and discussed and compared with the plan recommended in Chapter III.

Some duplication in the descriptions of each of the plans has been included in the discussion in order to provide complete information on each plan.

Alternative plan #1 for financing podiatric medical education

The essential characteristics of alternative plan #1 are as follows:

1) Federal legislation would be enacted to provide $7 million over a period of five years, in lieu of capitation grants, to enable the colleges of podiatric medicine to establish a perpetual student loan fund. The funds would be deposited with a private "guarantor" organization (such as United Student Aid Funds, Inc.) to create a College Security Fund that would make available $70 million in student loans. That amount would be allocated *pro rata* according to enrollment to each of the colleges for loans to its students.

2) Under this plan, every student enrolled in a college of podiatric medicine for a doctoral (DPM) degree would be eligible to borrow each semester an amount equal to the cost of tuition and fees. However, if the amount available in the College Security Fund were less than the amount of loans required in any semester, loans would be made first to needy students in the order of their highest priority.

3) The lender would be groups of banks or insurance companies whose funds would be administered through United Student Aid Funds, Inc., or a similar independent organization.

4) The amounts borrowed would be evidenced by notes signed by the student and by the authorized official of the guarantor organization. The notes would bear a rate of interest that would make the loans competitive with other investment opportunities of the lender (say, the three-months U.S. Treasury bill rate plus three percent) plus charges for life and disability insurance.

5) A fee equal to one-half of one percent of the outstanding principal balance of each loan would be charged to establish a guarantee fund in the name of each college to cover defaults by its students. In the event and to the extent that payments on defaulted loans from the guarantee fund exceeded the amount of the fund, payment of defaulted loans would be covered by the College Security Fund. Each college would be responsible for replacing any funds used in this manner.

6) The principal of the notes plus the accumulated cost of insurance, guarantee fees, and accrued interest would be payable in 20 equal annual installments beginning at the end of the first year after the student receives the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate education program including residencies.

7) The Federal Government would provide, through the existing program of agreements with the Secretary of Health, Education, and Welfare, opportunities for graduates to serve in shortage areas, and to have up to 85 percent of their loans repaid by the Federal Government for three consecutive years of service. These programs would continue to be offered at the option of the Secretary.

8) The notes signed by the student would be accompanied by a life and disability insurance policy equal to the face amount of the loan outstanding plus the accumulated interest, cost of insurance, and service fee.

9) The student would be entitled to repay in cash any part or the full amount of the notes and the accumulated charges and interest with no penalty for prepayment.

10) The amount deposited in the College Security Fund by the U.S. Government would be a loan in perpetuity as long as the plan was continued, but would be refunded to the government in the event the plan was abandoned and the funds were no longer required as reserves for outstanding loans. Unused funds remaining in the guarantee fund of each college would be contributed to the college when no longer required for guarantee of outstanding loans.

11) Earnings from interest on the amounts deposited in the College Security Fund would be used to cover the administrative costs of operating the loan program.

12) Deferment of payment could be arranged at the discretion of the lending institution and United Student Aid Funds, Inc. for periods of active military service, service in ACTION, Peace Corps, VISTA, or the National Health Service Corps. Alternatively, Congress could choose to qualify such service for repayment of the loans by the Federal Government in a manner similar to the provisions for practicing in a shortage area.

13) Congress could provide for repayment of loans in extreme hardship cases (such as a student from a low-income or disadvantaged family who failed to complete the podiatric medical education program, was in exceptionally needy circumstances, and could not be expected to resume study within three years).

Alternative plan #1 is based on a number of assumptions, some of which, if correct, would make it acceptable as an alternative to the plan recommended in Chapter III. The assumptions are as follows:

1) The Federal Government would prefer not to expand its commitment to pay for podiatric medical services in underserved areas beyond the scope of the provisions of existing law.

2) The Federal Government would prefer not to be involved in student loan guarantees.

3) The Federal Government would be willing to provide the start-up funds in lieu of capitation grants, despite proposed plans for phasing out capitation grants.

4) The boards and presidents of the colleges of podiatric medicine would be willing to forego the chances of obtaining continuous capitation grants over the next five or more years.

5) Lenders would make available the necessary loan funds on the principle that the College Security Fund would provide adequate security for a total loan volume ten times the amount of the Fund.

6) The United Student Aid Funds, Inc. would agree to participate in the proposed plan.

This plan is modeled after an existing loan program (the Graduate and Professional School Loan Program) which United Student Aid Funds, Inc. has implemented and operated successfully for the past three years. In 1975, the Graduate and Professional School Loan Program provided $7.3 million in new loans to students of medical, dental, law, and graduate business schools.*

If the United Student Aid Funds, Inc. were to follow the practice that it has already established for those students, the amount deposited in the proposed College Security Fund would support ten times the face amount in student loans. The $7 million deposited as security on this basis would make available as much as $70 million in student loans. That amount, when added to existing sources of financing (government-sponsored loans, private loans, etc.), should be adequate to meet the needs of most of the students over the next five years.

The disadvantages of alternative plan #1 which would make it less effective than the plan recommended in Chapter III are as follows:

1) The opportunity for graduates to have their education debts repaid by the Federal Government in return for serving in underserved areas is less certain. Many students might, of course, choose to enter into an agreement with the Secretary of Health, Education, and Welfare, within the existing provisions of the law, to have up to 85 percent of their loans repaid by the government in return for three years of professional practice in a shortage area. There is, however,

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* In January 1976, however, the United Student Aid Funds, Inc. advised potential participants that the program was being curtailed due to a drastic reduction in loan fund commitments by its principal lender and was facing termination ultimately if new sources of loan funds could not be arranged with lending institutions.

no assurance that this option will continue to be available, particularly as the amount of borrowing increases and more students begin to exercise the option to have their education debts repaid by the government. Without such an opportunity the debt obligation could be too great for some graduates to manage in private practice.

2) The total amount of available loan funds would be less and would likely have to be apportioned among the students based to some extent on need.

3) Federal funds provided for establishing the College Security Fund would be sufficient only for the first five years of operation of the program. Continuation of the program would depend on further capitalization of the College Security Fund until it became a self-sufficient revolving fund.

4) Lenders might not be willing to provide as much as ten times the College Security Fund in lendable funds.

To partially offset some of these disadvantages, an optional feature could be incorporated in the plan to permit the colleges to transfer funds advanced for the Health Professions Loan Program and the National Direct Student Loan Program to the College Security Fund. The aggregate amount of such funds advanced to the colleges and now on deposit or receivable from students is more than $3 million. In future years, assuming the Health Professions Loan Program would be continued at present levels, more than $1 million could be added to the College Security Fund each year.

The optional feature would provide a more effective use of federal funds than at present. The amount of funds now provided as capitation grants (and Health Professions Loan funds if the optional feature were included) would be multiplied tenfold as the funds available to students as loans.

Alternative plan #2 for financing podiatric medical education

This plan in nearly identical with alternative plan #1 except that the College Security Fund would be established with amounts raised from private donors, foundations, state governments, and from internal operations of the colleges rather than from the Federal Government.

The disadvantage of this plan is the uncertainty about whether an adequate amount of money could be raised from those alternative sources. Nevertheless, the plan is noted as an alternative in the event no action is taken by the Federal Government to assist in establishing the plan recommended in this report.

Alternative plans #1 and #2 could, in fact, be combined, with the federal funds matched by funds raised by the colleges, thereby helping to assure the provision of an adequate amount of capital.

A summary of alternative plan #2 follows:

1) Funds would be raised from private donors, foundations, state governments, and from internal operations of the colleges of podiatric medicine to establish a revolving student loan fund. The amount raised, say $5 million over a period of time, would be deposited with a private "guarantor" organization (such as United Student Aid Funds, Inc.) to create a College Security Fund that would make available $50 million in student loans. That amount would be allocated, pro rata according to enrollment, to each of the colleges for loans to its students.

2) Under this plan, every student enrolled in a college of podiatric medicine for a doctoral (DPM) degree would be eligible to borrow each semester an amount equal to the cost of tuition and fees. However, if the amount available in the College Security Fund were less than the total amount of loans requested in any semester, the loans made to each student would be reduced pro rata.

3) The lender would be groups of banks or insurance companies whose funds would be administered through United Student Aid Funds, Inc., or a similar independent organization.

4) The amounts borrowed would be evidenced by notes signed by the student and by the authorized official of the guarantor organization. The notes would bear a rate of interest that would make the loans competitive with other investment opportunities of the lender (say the three-months U.S. Treasury bill rate plus three percent), plus charges for life and disability insurance.

5) A fee equal to one-half of one percent of the outstanding principal balance of each loan would be charged to establish a guarantee fund in the name of each college to cover defaults by its students. In the event and to the extent that payments on defaulted loans from the

guarantee fund exceeded the amount of the fund, payment of defaulted loans would be covered by the College Security Fund. Each college would be responsible for replacing any funds used in this manner.

6) The principal of the notes plus the accumulated cost of insurance and guarantee fees and accrued interest would be payable in 20 equal installments beginning at the end of the first year after the student receives the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate education program which includes residencies.

7) The Federal Government would provide, through the existing program of agreements with the Secretary of Health, Education, and Welfare, opportunities for graduates to serve in a shortage area, and to have up to 85 percent of their loans repaid by the Federal Government for three consecutive years of service. These programs would continue to be offered at the option of the Secretary of Health, Education, and Welfare.

8) The notes signed by the student would be accompanied by a life and disability insurance policy, the face amount of which would equal the amount of the loan, plus accumulated interest, cost of insurance, and service fee.

9) The student would be entitled to repay in cash any part or the full amount of the notes and the accumulated charges and interest with no penalty for prepayment.

10) In the event that the plan were abandoned, any amount in the College Security Fund not required for securing outstanding loans would be returned to the colleges _pro rata_ according to the amount originally raised by each college. A gift of the _pro rata_ amount of the funds raised otherwise would be made to the Fund for Podiatry Education and Research. Unused funds remaining in each college's guarantee fund would be contributed to the college when no longer required for guarantee of outstanding loans.

11) Earnings from interest on the amounts deposited in the College Security Fund would be used to cover the administrative costs of operating the loan program.

12) Deferment of payment could be arranged at the discretion of the lending institution and United Student Aid Funds, Inc. for periods of active military service, service in ACTION, Peace Corps, VISTA, or the National Health Service Corps. Alternatively, Congress could choose to

qualify such service for repayment of the loans by the Federal Government in a manner similar to the provisions for practicing in a shortage area.

13) Congress could provide for repayment of loans in extreme hardship cases (such as a student from a low-income or disadvantaged family who failed to complete the podiatric medical education program, was in exceptionally needy circumstances, and could not be expected to resume study within three years).

Alternative plan #3 for financing podiatric medical education

This plan would amend the present Guaranteed Student Loan Program in such a way that the needs of podiatric medical students would be adequately met. The major advantage would be to avoid creating a new program specifically for podiatric medical education by amending existing legislation so that other health profession students ~~also~~ might benefit. A summary of the plan follows:

1) Federal legislation would be enacted to amend the Guaranteed Student Loan Program with respect to health professions students as follows: (a) raise the borrowing limit to $25,000 (from the $10,000 now existing, which includes loans incurred for undergraduate education); (b) raise the maximum rate of interest chargeable to students to eight percent (from the present seven percent); (c) increase the special allowance (serving as a partial interest subsidy) paid by the U.S. Treasury on Guaranteed Student Loans from the present maximum of three percent to a maximum of four percent; and (d) extend the grace period to three years (from the existing one year after the borrower ceases to be a full-time student) in order to allow enough time for residency training and establishing practice.

2) Under this plan, every student enrolled in a college of podiatric medicine for a doctoral (DPM) degree could borrow each year up to $5,000 to defray all or a part of the cost of professional education.

3) The lenders would be individual banks and other eligible lending institutions according to the provisions of the present Guaranteed Student Loan Program.

4) The amounts borrowed would be evidenced by notes signed by the students and insured by the Federal Government after having been guaranteed by a state agency or an independent nonprofit organization such as United Student Aid Funds, Inc. The notes would bear eight percent interest to be paid by the student which would be supplemented (up to four percent, in addition) by the U.S. Treasury.

5) The principal of the notes would be payable in equal monthly installments over a period of five to ten years beginning at the end of the grace period.

6) The Federal Government would provide, through the existing program of agreements with the Secretary of Health, Education, and Welfare, opportunities for graduates to serve in a shortage area and to have up to 85 percent of their loans repaid by the Federal Government for three consecutive years of service. These opportunities would continue to be offered at the option of the Secretary of Health, Education, and Welfare.

7) The interest on the notes would be payable by the student as it accrues. However, borrowers with adjusted family income of less than $15,000 would pay only the interest on the first $2,000 of the loan amount until the repayment period began. Thereafter, students would be responsible for paying interest charges on the full amount of the loan.

8) The student would be entitled to repay in cash any part or the full amount of the notes without penalty for prepayment.

9) An insurance premium amounting to no more than one percent of the total loan amount outstanding each year would be collected in advance by the lender from the borrower under guaranteed programs of state agencies or private organizations.

10) Full cancellation of a borrower's unpaid loan balance would be allowed for:

- death
- permanent and total disability
- bankruptcy.

11) Repayment of amounts due could be deferred and no interest would accrue during periods of:

- service in the Armed Forces, Peace Corps, or VISTA (up to three years)
- full-time study at an eligible school.

The plan would be an acceptable alternative because it would provide enough money for the colleges of podiatric medicine to implement the deferred cost concept. It would not, however, be as effective as the plan recommended in Chapter III because:

- The maximum amount a student could borrow would be less than in the proposed plan, and might not be sufficient to permit some students to cover their education costs (for example, those who have inadequate funds from other sources). Furthermore, as costs rise each year the loan ceilings would become more restrictive. (An additional feature could be included in the amended Guaranteed Student Loan Program to provide for automatic review of the loan ceilings at least as often as once every three years and revision upward as necessary to cover increased levels of cost.)

- The opportunity for graduates to have their education debts repaid by providing services in shortage areas is less certain; the debt obligation could be too heavy for some students to manage by cash repayments.

- No additional provisions are made to reduce the risk of default and no funds are provided specifically for the cost of administering the program. (Although defaults among graduates in podiatric medicine are not expected to be a serious problem, added safeguards might be appropriate in view of the current criticism of the Guaranteed Student Loan Program's rate of default.)

- Some cost to the government (e.g., interest subsidy) would continue to be related to education rather than directly to provision of medical services to the public.

Alternative plan #4 for financing podiatric medical education

This plan also offers an alternative to creating a new program specifically for podiatric medical education by amending the existing Health Professions Loan Program. The needs of the students and colleges of podiatric medicine could be adequately met. Other health professions would benefit as well if that program were amended as proposed. A summary of the plan follows:

1) Federal legislation would be enacted to (a) raise the borrowing limit under the Health Professions Student Loan Program to a maximum of $7,000 per academic year, or the amount of financial need, whichever is less; (b) liberalize substantially the needs formula; (c) increase the grace period until three years after graduation or the student ceases to be enrolled full-time; and (d) establish the program as an entitlement to be funded each year in the aggregate amount necessary to cover the loan requirements of all the students according to their needs as determined by the needs analysis formula.

2) Students enrolled in a college of podiatric medicine for a doctoral (DPM) degree who are in need (as determined by the needs analysis formula) would be entitled to borrow for professional education expenses each academic year.

3) The lenders would be the five colleges of podiatric medicine who would be required to provide one-ninth of the federal allotment in matching funds.

4) The amounts borrowed would be evidenced by notes signed by the student, bearing a three percent rate of interest.

5) The principal of the notes would be payable over ten years in equal or graduated annual installments beginning at the end of the grace period.

6) The Federal Government would provide through the existing program of agreements with the Secretary of Health, Education, and Welfare, opportunities for graduates to serve in shortage areas, and to have up to 85 percent of their loans repaid by the Federal Government for three consecutive years of service. These opportunities would continue to be offered at the option of the Secretary of Health, Education, and Welfare.

7) The Federal Government would waive interest payments until the grace period had ended and during periods of deferment.

8) The student would be entitled to repay in cash any part of the full amount of the notes with no penalty for prepayment.

9) Students who failed to complete their health professions studies could have their outstanding loans repaid by the Secretary of Health, Education, and Welfare if they: (1) were in exceptionally needy circumstances, (2) were from a low-income or disadvantaged family, and (3) could not be expected to resume study within two years.

10) Full cancellation of a borrower's unpaid loan balance would be allowed for:

    - death
    - permanent and total disability
    - bankruptcy.

11) Repayment of amounts due could be deferred during periods when the borrower:

    - reentered (within the grace period) an eligible health professions school for full-time study;

    - performed full-time, active duty in the Armed Forces, National Ocean Survey, or U.S. Public Health Service, or served as a volunteer under the Peace Corps Act (up to three years); or,

    - pursued advanced professional training of at least one academic year beyond the first professional degree, including internships and residencies.

The Health Professions Loan Program, if revised as proposed above, would serve as an effective means of financing podiatric medical education. However, the amount of the financing needed might make this plan unacceptable to the Federal Government. The plan would require a substantial increase in federal appropriations annually for several years to provide fully the amount of loan funds needed for students in podiatric medicine and other health professions.

Furthermore, this plan would involve a far less productive use of capital than alternative plan #1. One-tenth of the amount of federal funds needed to establish plan #4 could achieve the same result by establishing the College Security Fund as proposed in alternative plan #1.

There is no assurance either that the colleges would be able to raise the amount of funds needed to meet the one-ninth matching requirement in this plan. In this regard the plan is no better than alternative plan #2 which would have the colleges raise one-tenth of the total amount of loan funds needed but would require no federal funds.

Plan #4, compared to the recommended plan, also would have several of the disadvantages noted previously for the other alternative plans; that is:

- federal funds would continue to be focused on education rather than directly on the provision of health care for the public;

- the Federal Government would continue to assume the potential cost of defaults;

- no funds would be provided for administering the program. (The program would continue to be administered by the colleges which have neither adequate staff nor experience for the initiation, follow-up, and collection of loans);

- provisions for graduates to have a substantial part of their education debts repaid by the government by agreeing to serve in shortage areas would be less certain;

- the loan ceilings would be substantially lower than the students' full cost of education and would become more restrictive as costs rose in the future.

Furthermore, this plan would serve only those students who could demonstrate need. Although the needs analysis formula would be substantially liberalized, many students could be expected to have borrowing needs that would not be met.

However, students who qualified for loans under this plan would realize a substantial benefit in reduced interest expense. Loans under this plan would accrue no interest during the school years or periods of deferment for residencies, internships, advanced professional education, military service, etc. The rate of interest accruing during the repayment period would be only three percent per annum.

Comparison of alternative plans

The chart in Appendix L summarizes and compares the alternative plans with the plan recommended in this report.

Appendix A

Long-Range Planning Projections for the Five Private Colleges of Podiatric Medicine
Prepared by the Academy's Staff
December 1975

For a number of years the five private colleges of podiatric medicine have included projections of their enrollments, graduates, incomes, expenditures, student-aid needs, etc., in the statistical backup for proposals for various types of financial support. These projections provided the Academy's study staff with a quick insight into the situation at each of the colleges involved. The study staff found, however, that:

- Each of the projections was made for a special purpose and was based on assumptions related primarily to that purpose.
- No consistent pattern was followed by the various colleges with respect to the assumptions made or the period of time covered; as a result the data prepared by each college could not be combined into totals for all the colleges.
- Past projections are now obsolete because of changing circumstances; neither the assumptions made nor the figures reported have been updated.
- A new set of long-range planning projections was required for the present study.

Accordingly, during the period prior to the preparation of this report, the Academy staff asked the colleges to provide historical data and to make suggestions on the basis of a uniform set of assumptions for projections to 1983. The data were then combined and were used by the staff as a portion of the background for making the Academy's own projections.

In making the projections, the staff used assumptions that were reasonable in the light of the present and prospective state of the national economy, the need for well-trained professional personnel in podiatric medicine, and the objectives and future plans of each of the colleges as submitted to and evaluated by the staff. The staff made the final decisions on assumptions and projections with the approval of the Advisory Panel and takes the entire responsibility for the projections which follow. The estimates for the academic years 1976 to 1983 are to be regarded as the "Academy projections based on Academy assumptions," and, therefore, not those of the individual colleges or of the American Association of Colleges of Podiatric Medicine.

Of course, no one can guarantee the validity of the assumptions which were utilized for these projections. Only time will tell how reasonable they are. Modifications are to be expected in the years ahead as circumstances change and the data are updated.

Briefly, the projections assumed that by 1982-83 the objectives of the five colleges would be the following:

1) to enroll a total of 2,834 degree-credit students;

2) to reach an average faculty compensation that is within 90 percent of the average compensation of medical college faculty; and

3) to be able to charge a tuition rate adequate to balance the budget at each college after first estimating total expenditures, and then estimating all other sources of revenue.

A summary of net expenditures per student as projected by the staff to 1982-83 and the average tuition and fees per student required to meet these expenditures are as follows:

Table 17

Number of Students, Net Expenditures Per Student, and Average Tuition and Fees Per Student at Colleges of Podiatric Medicine

1970 - 1983

Academic Year	Number of Degree Credit Students	Net Expenditure Per Student By the Colleges		Average Tuition and Fees Per Student	
		Amount	Percentage Increase Over 1974-75	Amount	Percentage Increase Over 1974-75
Actual					
1969-70	1,095	$3,401	--	$1,366	--
1974-75	1,849	6,362	--	3,014	--
Projected					
1975-76	2,076	6,900	8%	3,350	11%
1976-77	2,240	7,600	19	4,000	33
1977-78	2,450	8,400	32	5,000	66
1978-79	2,592	9,400	48	6,400	112
1979-80	2,684	10,500	65	8,100	169
1980-81					
A	2,736	12,500	96	10,000	232
B	2,736	12,500	96	12,000	298
1981-82	2,811	14,800	133	12,200	305
1982-83	2,834	17,100	169	14,500	381

Note: Projection A assumes that expenditure trends will follow the pattern of the past five years and U.S. Government grants will be about the same per student as in 1975.

Projection B assumes that expenditure trends will follow the pattern of the past five years and U.S. Government grants will be discontinued, as the Secretary of Health, Education, and Welfare has proposed.

Eight tables that summarize the historical data assembled from the colleges and the projections made by the Academy staff follow. They are: Table 18: Assumptions; Table 19: Student and Degree Data; Table 20: Faculty Data; Table 21: Data on Operating Revenues; Table 22: Data on Operating Expenditures; Table 23: Data on Physical Plant Construction and Other Capital Expenditures; Table 24: Data on Assets and Liabilities; and Table 25: Further Information on Student Aid.

Table 18

Assumptions Entering Into the Projections For the Five Private Colleges of Podiatric Medicine

Item	Assumption
1. Inflation	Inflation can be expected to continue at the rate of six or seven percent a year, on the average, and will be one factor increasing the operating costs of colleges of podiatric medicine, as well as other private and public colleges and universities in the country.
2. Quality	Colleges of podiatric medicine can be expected to continue their efforts to upgrade their academic programs and their facilities throughout the period. Constant efforts will be made to increase the proportionate number of full-time faculty.
3. Capitation	The U.S. Congress can be expected to continue to authorize and appropriate some funds for capitation grants for colleges of podiatric medicine as well as for other colleges, universities, and professional schools providing education for the health professions. However, the colleges of podiatric medicine will have to be prepared in the future (as they have been in the past) to finance their operating costs one way or another, regardless of the level of Federal Government funding available. Note: At the time this appendix was prepared, no clear indication existed as to how long Congress would continue capitation grants. In June 1975, for example, the House committee considering new health manpower legislation recommended capitation to 1980 for colleges providing health

(continued)

Table 18
(continued - 2)

Assumptions Entering Into the Projections
For the Five Private Colleges of Podiatric Medicine

Item	Assumption
	field personnel, but with a lowered amount in that year than previously. In September 1975, the Assistant Secretary for Health of the Department of Health, Education, and Welfare recommended a substantial phase down in capitation payments to colleges of podiatric medicine, from $400 in the fiscal year 1975 to $300 in the fiscal year 1976 to $200 in the fiscal year 1977 and nothing thereafter. His recommendation was repeated in November 1975 in letters from the Secretary of Health, Education, and Welfare to the Speaker of the House and the President of the Senate.
4. New Sources of Funding	New and possibly important sources of funding for private colleges of podiatric medicine may come into being in the next few years (for example, capitation grants by state governments, contracts between the state governments and the individual institutions for the provision of educational services, etc.). Although these new sources of funding are likely to be important they are not likely to finance more than a small proportion of the costs of education for podiatric medicine.
5. Demand for New Financing Programs	Any sharp rise in the cost of education for students in podiatric medicine (and for students in other professional health fields as well) can be expected to be followed by a concerted demand on government officials by students and their families

(continued)

Table 18
(continued - 3)

Assumptions Entering Into the Projections
For the Five Private Colleges of Podiatric Medicine

Item	Assumption
	for new loan and scholarship programs, forgiveness provisions, service corps opportunities, and other means whereby financing of all education costs out of current income can be avoided.
6. Need for a Deferred Cost of Education Plan	A deferred cost of education plan along the lines proposed in the Academy's report is essential for the future financing of the colleges of podiatric medicine and their students.
7. Capacity of Students to Repay Loans	Students of podiatric medicine can expect adequate earnings from professional practice to repay education loans reaching the levels mentioned in this report. If a program of national health insurance is created and involves changes in the economic pattern for practitioners in the health fields, it can be expected to include provisions for satisfying the education loan obligations incurred by podiatrists as well as by other types of health professionals.
8. Scholarships for Needy Students	Scholarship funds for needy students (beyond the amounts available from loans) are the responsibility of donors recruited by the boards or the management executives of the colleges of podiatric medicine or of government agencies. Scholarship funds are not the responsibility of financially able students, and should not be included in the portion of the operating budgets of the colleges which is financed by tuition and fees.

(continued)

Table 18
(continued - 4)

Assumptions Entering Into the Projections
For the Five Private Colleges of Podiatric Medicine

Item	Assumption
9. Private Fund-Raising	Private fund-raising will increase substantially in the years ahead with the funds directed mainly to new construction and renovation, new equipment, endowment, and scholarships. Private fund-raising will not be a substantial source of funds for the regular operating budgets.
10. Research Funds	Research for the improved care of patients and for the advancement of the profession can be expected to be carried on part-time by members of the faculties of the colleges of podiatric medicine. By 1980 nearly 100 percent of the costs involved, including overhead, will be financed by grants from Federal Government agencies (such as the National Institutes of Health), private corporations, and other contributors.
11. Public Service Activities	The colleges can be expected to provide a significant amount of public service in the future for which no compensation is provided. The cost of this service is expected to be absorbed by the colleges or their faculty members and administrative personnel within the funding available from sources other than students.
12. New Colleges of Podiatric Medicine	If new colleges of podiatric medicine are established during the next few years, or if the school at the State University of New York at Stony Brook becomes operational, the number of students and faculty involved and the budget commitments are not likely to be large enough by 1983 to alter

(continued)

Table 18
(continued - 5)

Assumptions Entering Into the Projections
For the Five Private Colleges of Podiatric Medicine

Item	Assumption
	significantly the trends shown in the tables in this Appendix.
13. Current Operating Budget	Budgets will be balanced at each of the colleges each year, by the imposition of tuition charges adequate to meet the difference between total operating expenditure and the amount obtainable from revenue sources other than students.
14. Compensation of Faculty	By 1982-83 compensation will reach an average that is within 90 percent of the average compensation of medical school faculty.

Table 19

Data on Students and Degrees Awarded At the Five Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Number of students enrolled: Fall Session:										
a. Degree credit students										
1. First professional	1,089	1,836	2,059	2,219	2,406	2,530	2,601	2,648	2,708	2,716
2. Graduate	6	7	7	11	16	22	27	27	32	37
3. Podiatric assistant/ technologist	--	6	10	10	28	40	56	61	71	81
4. Total degree credit students	1,095	1,849	2,076	2,240	2,450	2,592	2,684	2,736	2,811	2,834
b. Residents (not in graduate degree program)	18	15	14	16	18	20	23	26	28	30
c. Continuing education students	--	--	--	100	500	580	640	665	725	775
d. Total number of students enrolled	1,113	1,864	2,090	2,356	2,968	3,192	3,347	3,427	3,564	3,639
2. Typical academic year cost for first professional degree students:										
a. Tuition and fees (4-year basis)	$1,366	$3,014	$3,350	$ 4,000	$ 5,000	$ 6,400	$ 8,100	$10,000	$12,200	$14,500
b. Books and equipment	300	425	450	480	520	550	580	620	660	700
c. Room and board	2,400	3,400	3,600	3,850	4,100	4,360	4,650	4,955	5,275	5,620
d. Other personal (minimum)	1,670	2,350	2,500	2,675	2,850	3,030	3,230	3,440	3,660	3,900
e. Total cost	$5,736	$9,189	$9,900	$11,005	$12,470	$14,340	$16,560	$19,015	$21,795	$24,720
3. Number of degrees and certificates granted:										
a. First professional degree	246	350	496	494	542	618	660	676	683	697
b. Masters degree	3	4	4	6	9	12	15	20	25	30
c. Bachelor of science degree	34	5	5	3	30	35	40	40	40	40
d. Podiatric assistant certificate	--	6	10	10	28	40	56	61	71	81
e. Continuing education certificate	99	--	--	100	470	550	600	625	675	725
f. Other (Ph.D.)	--	--	--	--	--	--	1	1	1	1
g. Residency certificates	21	22	21	20	23	28	30	30	30	35
h. Honorary doctorates	5	4	5	6	6	6	7	7	7	7
i. Total number	408	391	541	639	1,108	1,289	1,409	1,460	1,532	1,616

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 20

Faculty Data for Five Private Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Number of teaching faculty (full-time equivalent):										
a. Professor	21	28	28	34	39	44	49	52	56	60
b. Associate professor	15	36	46	53	61	69	75	81	87	91
c. Assistant professor	25	50	55	61	70	79	88	93	99	104
d. Instructor	21	39	52	57	66	74	81	82	87	90
e. Clinician	9	11	8	11	14	15	17	22	24	25
f. Laboratory assistant	2	7	13	15	18	20	22	28	33	37
g. Resident	8	26	28	29	34	35	44	45	46	47
h. Subtotal, paid faculty	101	197	230	260	302	336	376	403	432	454
i. Unpaid faculty	30	39	41	42	43	41	34	29	26	23
j. Total faculty	131	236	271	302	345	377	410	432	458	477
2. Number of full-time degree credit students per full-time equivalent faculty member for fall session	8.5	7.8	7.6	7.4	7.1	6.9	6.6	6.4	6.2	6.0
3. Average academic year salary of full-time faculty by rank:				(In thousands of dollars)						
a. Professor	$18.5	$24.3	$25.6	$28.1	$30.8	$33.6	$36.6	$39.9	$43.4	$47.7
b. Associate professor	14.1	20.7	21.8	23.4	25.3	27.6	30.1	32.8	36.2	39.8
c. Assistant professor	10.6	17.4	18.4	19.9	21.5	23.5	25.6	27.9	30.7	33.8
d. Instructor	8.8	13.5	14.0	14.5	15.1	15.6	16.4	17.2	18.1	19.0
e. Clinician	7.2	18.0	18.9	19.6	20.3	21.3	22.4	23.5	24.7	25.9
f. Laboratory assistant	5.7	7.1	7.6	8.7	9.0	9.4	9.8	10.3	10.8	11.4
g. Resident (first year)	4.2	5.3	5.8	6.5	6.8	7.1	7.5	7.9	8.4	9.0
h. Resident (second year)	4.8	6.6	7.1	8.0	8.3	8.6	9.0	9.4	9.9	10.5
4. Average compensation of full-time equivalent faculty for academic year:				(In thousands of dollars)						
a. Salary	$10.6	$15.1	$16.7	$18.7	$20.6	$22.7	$24.9	$27.3	$30.3	$33.4
b. Fringe benefits	1.3	2.1	2.5	3.0	3.7	4.5	5.5	6.3	7.3	8.4
5. Total institutional expenditure for compensation of teaching faculty for academic year:				(In thousands of dollars)						
a. Salary	$1,076	$2,978	$3,846	$4,867	$6,233	$7,628	$9,370	$11,004	$13,074	$15,186
b. Fringe benefits	133	415	585	779	1,122	1,526	2,062	2,531	3,138	3,796

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 21

Data on Operating Revenues of the
Five Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Educational and general revenues:	(In thousands of dollars)									
a. Tuition and fees	$1,505	$ 5,654	$ 7,200	$ 9,300	$12,900	$17,000	$22,100	$28,000	$35,000	$41,400
b. Government appropriations:										
Federal and state	1,551	2,954	2,660	3,185	3,470	3,545	3,885	3,935	4,035	4,185
c. Endowment income	60	27	15	15	15	15	15	15	15	15
d. Private gifts	31	267	415	450	450	500	500	550	550	600
e. Sponsored research										
1. Federal Government	--	94	30	100	150	200	250	300	400	500
2. Other	11	30	65	100	150	200	250	300	400	500
f. Clinic operations	1,484	1,963	2,615	3,070	3,230	3,380	3,600	3,850	4,100	4,250
g. All other	53	95	100	120	140	150	150	150	150	150
h. Total revenues	4,695	11,084	13,100	16,340	20,505	24,990	30,750	37,100	44,650	51,600
2. Student aid:										
a. Federal Government	524	881	660	640	675	700	750	750	750	750
b. State government	—	—	710	815	935	1,000	1,000	1,000	1,000	1,000
c. Private gifts and grants	—	10	10	10	15	20	20	20	20	20
d. Endowment income	—	—	15	15	15	15	15	15	15	15
e. Other sources	7	37	25	25	25	35	35	35	35	35
f. Total student aid	531	928	1,420	1,505	1,665	1,770	1,820	1,820	1,820	1,820
3. Auxiliary enterprises	21	21	180	450	500	525	550	575	600	625
4. Grand Total - Revenues	$5,247	$12,033	$14,700	$18,295	$22,670	$27,285	$33,120	$39,495	$47,070	$54,065

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 22

Data on Operating Expenditures of the Five Colleges of Podiatric Medicine

1969-70 to 1982-83

	Historical and Current			Projections						
Item	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Educational and general expenditures				(In thousands of dollars)						
a. Instruction and departmental research	$1,558	$ 3,546	$ 4,085	$ 5,335	$ 8,445	$12,120	$17,110	$22,690	$29,470	$35,520
b. Sponsored or separately budgeted research and other sponsored programs	--	296	360	400	440	500	600	700	800	1,000
c. Extension and public service	--	37	100	120	130	150	160	180	200	200
d. Libraries	188	548	575	620	790	850	900	900	900	900
e. Physical plant maintenance and operations	299	1,110	1,518	2,020	2,500	2,750	3,000	3,250	3,500	3,750
f. Clinic operations	1,100	2,731	3,325	3,695	3,805	3,900	4,000	4,100	4,200	4,250
g. General administrative and institutional expense, student services, and staff benefits	1,405	2,462	2,525	3,160	3,420	3,750	4,000	4,300	4,600	5,000
h. Debt service	55	373	560	865	850	850	850	850	850	850
i. Total expenditures	4,605	11,103	13,048	16,215	20,380	24,870	30,620	36,970	44,520	51,470
2. Student aid:										
Refunds and cancellations	10	15	--	--	--	--	--	--	--	--
a. Grants	297	426	670	675	750	750	750	750	750	750
b. Loans	283	624	830	955	1,040	1,140	1,200	1,200	1,200	1,200
c. Total student aid	580	1,065	1,500	1,630	1,790	1,890	1,950	1,950	1,950	1,950
3. Auxiliary enterprises	21	15	180	450	500	525	550	575	600	625
4. Grand Total - Expenditures	$5,206	$12,183	$14,728	$18,295	$22,670	$27,285	$33,120	$39,495	$47,070	$54,045
				(In dollars)						
5. Average net expenditures per student	$3,401	$6,362	$6,900	$7,600	$8,400	$9,400	$10,500	$12,500	$14,800	$17,100

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 23

Data on Physical Plant Construction and Other Capital Expenditures of the Five Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
Expenditures	(In thousands of dollars)									
1. Education Purposes:										
a. Land purchases	$ --	$1,640	$ --	$1,500	$ 500	$ --	$ --	$ --	$ --	$ --
b. Building purchases	--	--	2,165	300	200	--	--	--	--	--
c. New building construction	--	3,000	3,000	3,500	1,500	--	--	1,500	1,500	--
d. Building renovations	300	2,740	3,000	500	500	500	500	500	500	500
e. Furnishings and equipment	230	1,500	1,500	500	500	500	500	500	500	500
f. Other	--	500	600	100	100	100	100	100	100	100
2. Auxiliary Enterprises	--	500	2,000	100	100	100	100	100	100	100
3. Service Property	--	100	400	50	50	50	50	50	50	50
4. All Other	--	--	--	--	--	--	--	--	--	--
5. Total Expenditures	$530	$9,980	$12,665	$6,550	$3,450	$1,250	$1,250	$2,750	$2,750	$1,250
Source of Funds:										
1. Gifts, grants, and appropriations										
a. Special or campaign fund	$ 56	$ 150	$ 900	$1,500	$ 500	$ --	$ --	$ 200	$ 300	$ --
b. General fund raising	--	85	200	300	600	1,000	1,000	1,000	1,000	1,000
c. Federal Government	304	3,770	6,350	2,500	1,000	--	--	500	550	--
d. State government	--	50	50	--	--	--	--	--	--	--
e. Local government	--	--	--	--	--	--	--	--	--	--
f. Total	360	4,055	7,500	4,300	2,100	1,000	1,000	1,700	1,850	1,000
2. Loans										
a. Federal Government	--	--	--	--	--	--	--	--	--	--
b. State government	--	2,425	4,500	--	--	--	--	--	--	--
c. Other	--	2,500	500	2,200	1,100	--	--	400	400	--
d. Total loans	--	4,925	5,000	2,200	1,100	--	--	400	400	--
3. Endowment Income	--	--	--	--	--	--	--	--	--	--
4. Other (including accumulated reserve)	170	1,000	165	50	250	250	250	650	500	250
5. Total Income	$530	$9,980	$12,665	$6,550	$3,450	$1,250	$1,250	$2,750	$2,750	$1,250

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 24

Data on Assets and Debts of the Five Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
	(In thousands of dollars)									
1. Amount of endowment, end of year (book value)	$ 881	$ 550	$ 240	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150	$ 150
2. Plant and equipment, end of year (book value):										
a. Educational plant and equipment	4,345	18,085	27,250	32,550	34,750	34,750	34,750	36,250	37,750	37,750
b. Other plant and equipment (including service property)	191	1,000	3,250	3,250	3,250	3,250	3,250	3,250	3,250	3,250
c. Total plant and equipment	4,536	19,085	30,500	35,800	38,000	38,000	38,000	39,500	41,000	41,000
3. Other assets and fund balances	1,916	3,420	4,360	5,200	6,000	7,000	8,000	9,000	10,000	11,000
4. Total assets	7,333	23,055	35,100	41,150	44,150	45,150	46,150	48,650	51,150	52,150
5. Bond and mortgage debt										
a. For educational facilities	1,156	7,425	11,200	13,500	14,400	14,200	14,000	14,200	14,400	14,200
b. For other purposes	225	785	2,000	2,000	2,000	1,950	1,900	1,850	1,800	1,750
c. Total debt	1,381	8,210	13,200	15,500	16,400	16,150	15,900	16,050	16,200	15,950
6. Other liabilities	1,502	3,045	4,100	5,150	5,950	6,950	7,950	8,950	9,950	10,950
7. Net equity in assets	$4,450	$11,800	$17,800	$20,500	$21,800	$22,050	$22,300	$23,650	$25,000	$25,250

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Table 25

Further Data on Financial Aid to Students
of the Five Colleges of Podiatric Medicine

1969-70 to 1982-83

Item	Historical and Current			Projections						
	1969-70	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83
1. Student aid expenditures included in college operating accounts:	(In thousands of dollars)									
a. Grants	$ 287	$ 426	$ 570	$ 675	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750
b. Loans	283	624	830	955	1,040	1,140	1,200	1,200	1,200	1,200
c. Total	570	1,050	1,500	1,630	1,790	1,890	1,950	1,950	1,950	1,950
2. Estimates of other assistance to students:										
a. Grants from:										
1) Federal Government	9	13	15	17	18	19	20	20	20	20
2) State government	54	72	80	88	96	101	112	114	116	117
3) Other sources	14	23	26	28	30	35	36	37	38	38
4) Total grants	77	108	121	133	144	155	168	171	174	175
b. Loans:										
1) Federally insured	540	1,800	2,160	2,500	2,900	3,000	3,000	3,000	3,000	3,000
2) Private bank	140	120	140	160	190	200	200	200	200	200
3) Other sources	280	445	470	540	710	800	800	800	800	800
4) Total loans	960	2,365	2,770	3,200	3,800	4,000	4,000	4,000	4,000	4,000
3. Total student aid provided from all sources	1,607	3,523	4,391	4,963	5,734	6,045	6,118	6,121	6,124	6,125
4. Total charges to students	$1,505	$5,654	$7,200	$9,300	$12,900	$17,000	$22,100	$28,000	$35,000	$41,400
5. Percent student aid is to total charges	107%	62%	61%	53%	44%	36%	28%	22%	17%	15%
6. Total education expense of students (including living expense)	$6,240	$16,370	$20,380	$24,420	$30,000	$36,280	$43,070	$50,350	$59,020	$67,140
7. Percent student aid is to students' total education expense	26%	21%	22%	20%	19%	17%	14%	12%	10%	9%

Source: Survey conducted by the Academy for Educational Development, 1975; projections are the responsibility of the Academy's study staff.

Note: Estimates of future amounts of student aid are based on existing programs only. The plans proposed in this report, if implemented, would change entirely the future outlook.

Appendix B

Sources of Funding for the Five Private Colleges of Podiatric Medicine

During the study for the Association, the staff examined the principal sources of revenue at the colleges. There were eight main sources during recent years as follows:

1) tuition and fees
2) Federal Government grants and contracts
3) state government grants and contracts
4) private gifts, grants, and contributions
5) income from clinic operations
6) earnings on endowment
7) income from auxiliary enterprises
8) miscellaneous receipts

This list and the discussion that follows refer only to operating accounts. Excluded are:

- Funds for construction. The assumption is that these funds will be provided in the future, as in the past, through special gifts, grants, or contributions from government agencies; from large-scale private fund-raising campaigns; or from private donors.

- Borrowing from banks or other lending agencies. This is only a temporary source of funds. It affects the cash flow of the college, but does not affect the budget lines and is not a source of revenue.

- Deficit financing. This is not a source of revenue and has to be covered from cash reserves or funds. external and internal, before bills and salaries can be paid. The financial reports of the colleges of podiatric medicine show only a very modest amount of internal cash reserves and even these reserves are committed to construction projects. Deficit financing, therefore, involves almost immediate borrowing from banks or from other providers of short-term funds.

A summary of revenues in recent years from each of the major sources of funding is in the table that follows:

Table 26

Sources and Amounts of Operating Revenues For Five Colleges of Podiatric Medicine

1970 and 1975

Source	Amounts for Academic Year 1969-70	Amounts for Academic Year 1974-75	Change
	(In thousands of dollars)		
Tuition and fees	$1,505	$5,654	+ $4,149
Federal Government grants and contracts	1,866	3,263	+ 1,397
State government grants and contracts	220	666	+ 446
Private gifts, grants, and contributions	31	307	+ 276
Income from clinic operations	1,484	1,963	+ 479
Earnings on endowment	60	27	- 33
Income from auxiliary enterprises	21	21	--
Miscellaneous receipts	60	132	+ 72
Total Operating Revenue	$5,247	$12,033	+ $6,776
	(In percent of total)		
Tuition and fees	28.7%	47.0%	+ 61.0%
Federal Government grants and contracts	35.6	27.1	+ 21.0
State government grants and contracts	4.2	5.5	+ 6.6
Private gifts, grants, and contributions	0.6	2.6	+ 4.0
Income from clinic operations	28.3	16.3	+ 7.0
Earnings on endowment	1.1	0.2	- .5
Income from auxiliary enterprises	0.4	0.2	--
Miscellaneous receipts	1.1	1.1	+ 1.0
Total	100.0%	100.0%	100.0%

Source: Reports by the colleges to the Academy study staff, July 1975.

Further information assembled by the staff on each of the sources of funding follows:

1. Tuition and Fees

The amount paid to the college by or for the student is classified as "tuition and fees." Payment must be made during the course of the school year according to a predetermined schedule. Payment cannot be postponed because the college uses the funds received from the students directly to pay faculty salaries, other operating costs, and day-to-day bills (often within a matter of days or weeks immediately after receipt).

The amount of tuition and fees received by the colleges of podiatric medicine is the balancing item in the operating budget because the accumulated reserves to draw upon are not very large. From time to time the colleges have received some government appropriations in the form of financial distress grants to pick up deficits, and special program improvement grants to improve educational quality. These were made at the option of Congress and the Executive Branch of the Government and were not related to regular year-to-year operations.

Over a period of time, changes in tuition and fees have been closely related to changes in the level of expenditures, and have reflected in part the movement by the colleges to higher quality programs -- a movement that has required more full-time clinical faculty, better classroom and laboratory facilities, more extensive libraries, better student services, etc. By the academic year 1974-75 the tuition and fees at colleges of podiatric medicine were equal to those charged by private colleges of medicine, dentistry, and osteopathy. Some averages for previous years (when, it is noted, the quality of education at the colleges of podiatric medicine were lower) are in the table that follows:

Table 27

Average Tuition and Fees* At Private Colleges In Selected Health Professions

1970 - 1975

Academic Year	Medicine (M)	Osteopathy (O)	Dentistry (D)	MOD Average	Podiatry	Podiatry as Percentage of MOD Average
1969-70	$2,130	$2,059	$2,738	$2,309	$1,666	72%
1970-71	2,250	2,080	3,155	2,495	1,938	78
1971-72	2,525	2,357	3,215	2,699	2,258	84
1972-73	2,650	2,525	3,251	2,809	2,639	94
1973-74	2,800	2,724	3,886	3,137	3,021	96
1974-75	3,100	2,932	4,185	3,406	3,439	101

Sources: Association of American Medical Colleges; American Association of Colleges of Osteopathic Medicine; American Association of Dental Schools; and reports by the colleges of podiatric medicine to the Academy study staff, 1975.

* Includes estimated cost of books and other instructional materials.

No one knows precisely how students raise the funds they spend for tuition and fees in the health professions. It is known, however, that students have had to borrow significant amounts to meet these costs. For the academic year 1970-71 it was estimated that 60 percent of podiatric medical students had borrowed an average of $1,817 which financed about 68 percent of the cost of tuition and fees. The survey of student borrowing conducted for this study showed that more students have been borrowing more money in recent years. However, the cost of tuition and fees has risen and the percentage of the cost of tuition and fees financed by loan funds has decreased slightly, as illustrated in the following table:

Table 28

Student Borrowing as a Source of Financing Podiatric Medical Education

1971 - 1975

Academic Year	Percentage of Students Borrowing	Average Amount Borrowed	Total Amount Borrowed as Percentage of Tuition and Fees	Total Amount Borrowed as Percentage of Students' Total Costs
1970-71	60%	$1,817	68%	19%
Average for four-year period ending 1974-75	74%	$2,094	63%	20%

Sources: How Health Professions Students Finance Their Education, Health Resources Administration, Public Health Service, October 1973; and student survey conducted by the colleges of podiatric medicine for the Academy for Educational Development, 1975 (see Appendix G).

The student survey showed that 73 percent of podiatric medical students graduating in 1975 had borrowed, on the average, a total of $10,550 for education. Staff interviews with students, as well as survey information, led to the further conclusions that:

- The amount of borrowing would have been greater had more funds been available under the Health Professions Loan program, and had the maximum loan ceiling been higher under the Guaranteed Student Loan program.
- Larger amounts of borrowing can be expected in the future as tuition increases and as other financing sources become available, or present student loan programs increase their funding levels.

2. Federal Government Grants and Contracts

Prior to 1965 the Federal Government made little contribution to the operating budgets of the colleges of podiatric medicine or to their predecessor institutions. No grants were made for research (such as those made to medical schools by the National Institutes of Health) for science improvements (by the National Science Foundation), nor for library improvement (by the Department of Health, Education, and Welfare), etc.

Beginning in 1966, the colleges of podiatric medicine became eligible to receive grants for program improvement. In 1972 they were included among the institutions providing health professions education that could receive capitation grants. However, the amounts of the grants were always lower than the amounts authorized by Congress because of the lower levels of actual appropriations.

The government has also made seven financial distress grants amounting to $1,673,000 to colleges of podiatric medicine in recent years because of the particularly difficult circumstances faced by these institutions.

Up to the present time, the colleges of podiatric medicine have received no significant grants for research similar to those made available to colleges of medicine and dentistry by the National Institutes of Health. Nor have they received any grants or assistance from the government to carry on public service activities, continuing education, or other professional responsibilities.

In the aggregate, federal grants to the podiatric medical colleges for all purposes had amounted to a total of $23.8 million by June 30, 1975. A summary by years is presented in the table that follows:

Table 29

Federal Sources of Operating Funds For Colleges of Podiatric Medicine In Recent Years

Academic Year	Health Professions Programs				Office of Education College Work-Study Funds	Total***
	Formula Grants* (Capitation)	Special Project Grants**	Financial Distress Grants	Scholarships and Loans		
	(In thousands of dollars)					
Prior to 1969-70	$2,079	$1,972	--	$1,065	$336	$5,452
1969-70	695	1,007	--	343	86	2,131
1970-71	693	866	--	543	96	2,198
1971-72	956	1,560	135	636	90	3,377
1972-73	1,061	642	392	809	153	3,057
1973-74	1,359	1,410	600	775	93	4,237
1974-75	1,219	721	546	796	90	3,372
Total	$8,062	$8,178	$1,673	$4,967	$944	$23,824

Sources: Bureau of Health Manpower, Health Resources Administration, and Division of Student Support and Special Programs, Office of Education, July 1975.

* Basic Improvement Grants, 1966 to 1970; Institutional Grants, 1970 and 1971; Capitation Grants, 1972 to 1975.

** Special Improvement Grants, 1968 and 1969.

*** Does not include National Defense Education Act student loan funds available to the colleges of podiatric medicine between 1958 and 1970.

Beginning in the academic year 1975-76, the Veterans Administration will make funds available for cooperative arrangements between some podiatric medical education institutions and veterans hospitals. Under these arrangements students will obtain clinical experience at the same time the hospitals will have an increased number of trained medical personnel available to them.

3. State Government Grants and Contracts

During the past ten or fifteen years state governments have been participating in the support of private health professions education. This support began with scholarship assistance to students and has expanded more recently to include formula grants, service contracts, and other arrangements between state government agencies and organizations and individual private institutions. In New York State, for example, the state government provides direct support through the budget of the New York State Education Department to the privately controlled New York University School of Medicine, the Cornell University Medical College, the Columbia University College of Physicians and Surgeons, etc. In Ohio, as another example, the state government provides support for Case Western Reserve's Medical School through a formal contract.

Four of the five colleges of podiatric medicine currently receive some form of state financial assistance.

Formula grants include capitation as well as degree reimbursement grants. Both the Illinois and New York colleges expect their state legislatures to pass bills approving state capitation: in Illinois by 1976 at $150 per first- and second-year resident students; in New York by 1977 at $1,000 per student.

The New York College currently receives an annual degree reimbursement grant from the state under the Bundy Plan (which provides grants to all eligible private higher education institutions in the state, based on the number of graduates). The amount received by the college in 1975 was $126,000.

Service contracts are being used increasingly by states, either directly or through regional compacts, to purchase educational opportunities for students from private health professions educational institutions. The Ohio College of Podiatric Medicine contracted directly with the State of West Virginia in 1974-75 for the training of West Virginia students in podiatric medicine. Funding for the first year amounted to $5,000 for a commitment to admit one student. Further funding for a number of other students is anticipated for subsequent years.

Only six states without colleges of podiatric medicine have provided any funding for the training of podiatrists who practice, or can be expected to practice, within their jurisdictions. In addition to West Virginia as noted above, five states which are members of the Western Interstate Commission on Higher Education (WICHE) have made funds available through the WICHE Student Exchange Programs for the training of students in podiatric medicine at the California College of Podiatric Medicine. From 1973 through 1975, the total funds provided for students in these programs at the California College came to $102,500.

Future contract arrangements might be worked out either directly with states or through regional compacts such as the Western Interstate Commission on Higher Education (13 western states), the Southern Regional Education Board (14 southern states), or the New England Board of Higher Education (six northeastern states). However, since only California (among the states in which the colleges are located) is a member of a compact, such arrangements would require individual state-by-state legislative negotiations for authorization and appropriations.

Other types of financial assistance arrangements are the following:

Pennsylvania: Each year since 1965 the Pennsylvania College of Podiatric Medicine has received direct support from the state on a negotiated basis, similar to the support given by that state to eleven other private medical schools and private universities providing education at the graduate and professional level.

California: While generally avoiding direct support of private higher education, the state authorized a contractual arrangement between the California College of Podiatric Medicine and the University of California Medical Center in San Francisco starting in the academic year 1974-75.

Some state legislatures have made arrangements for the support of professional students of optometry, veterinary medicine, etc. at private institutions. New state contracts supporting podiatric medical education can be expected to be worked out during the next few years. However, because of the long lead time and extensive negotiations likely to be involved, state contracts or other arrangements, when they occur, are not expected to provide by 1982-83 a volume of funding large enough to change substantially the projections in this appendix.

4. Private Gifts, Grants, and Contributions

For the past twenty years private colleges and universities have actively solicited and been the recipients of large amounts of gifts, grants, and contributions from private corporations, foundations, and individuals. Education opinion-makers everywhere now believe the future existence of the private institutions in a complex, pluralistic education society (which includes both private and public institutions of higher education) depends heavily upon financial support by the private sector. The importance of private sector support is so great, in fact, that public institutions (for example, large state universities) have turned to it for funds. These funds provide a measure of flexibility over and above that possible from state or Federal Government appropriations.

Today no leader in the private higher education sector believes it is possible to successfully operate a private institution without a great and continuous volume of private support. As a result, presidents and boards of trustees of private institutions have increasingly defined their jobs to include a large proportion of time and effort spent on private fund-raising. They are assisted in this endeavor, of course, by administrative and logistical support of offices of institutional development or public relations.

The literature on higher education is filled with articles and comments on the need for private fund-raising. The prevailing attitude has been adopted by higher education accrediting agencies. For example, some years ago the Middle States Association of Colleges and Secondary Schools, the regional organization which accredits many of the leading education institutions in this country, said in a statement on the functions of trustees that:

> The trustees are concerned with and must cultivate all appropriate sources of income. They quite fail in their responsibilities if they seek to balance the budget simply by curtailing expenditures. They must guard against unjustified expansion and they must require efficiency, although efficiency is a complex matter to judge in higher education, where effectiveness is even more important, but the trustees must also find the wherewithal for continual improvement.
>
> This is the part of their financial obligation which trustees sometimes forget. It is not primarily the president's responsibility to raise funds -- it is the trustees'. They need the president's leadership, but the actual responsibility rests on the board, collectively and individually. One vital factor in assessing the effectiveness of a board of trustees is the extent to which they (a) contribute personally each according to his means, and (b) directly obtain contributions from others. (Emphasis supplied)

This position cannot be ignored. The Council on Podiatry Education might use the occasion of the study on the Deferred Cost of Education Plan to discuss this matter with the boards of trustees of the five colleges.

During the past six years, the colleges of podiatric medicine have raised approximately $1.7 million from private sources. Most of this amount was for new construction (to supplement federal and state government funds) as shown in the table that follows:

Table 30

Private Fund-Raising
By Colleges of Podiatric Medicine

1970 - 1975

Academic Year	Purpose			Total
	Construction	Operations	Scholarships	
	(In thousands of dollars)			
1969-70	$ 56	$ 31	--	$ 87
1970-71	57	17	--	74
1971-72	65	22	--	87
1972-73	175	59	--	234
1973-74	564	100	--	664
1974-75	235	297	10	542
Total	$1,152	$526	$10	$1,688

Source: Reports by the colleges to the Academy study staff, July 1975.

No group of private institutions in the health field, or elsewhere in higher education, can look toward future financial stability without a substantial volume of annual giving provided by alumni and friends and by regular annual support from corporations and foundations. While admitting this point of view, the colleges of podiatric medicine point out that previous fund-raising efforts have not produced substantial results. They are reluctant to include in future projections substantial amounts from outside sources. The study staff notes the situation, and suggests in this Appendix that much more private fund-raising activity will be called for in the future if Federal Government leaders are to be assured that every effort is being made to obtain support from sources outside the U.S. Government.

5. Earnings on Endowment

Many private colleges and universities in the country report significant incomes from endowment funds accumulated as a result of past programs of individual gifts, bequests, estates, trusts, etc. The five colleges of podiatric medicine report that they have little or no formal endowment. Some report small accumulations of funds that were mostly temporary in nature and were being committed largely to construction of new facilities. Endowment earnings have been minimal (representing less than one percent of total revenues), as shown in the table that follows:

Table 31

Endowment and Investment Funds
At Colleges of Podiatric Medicine

1970 - 1975

End of Academic Year	Amount	Earnings Reported*
	(In thousands of dollars)	
1969-70	$881	$ 60
1970-71	865	193
1971-72	605	49
1972-73	626	77
1973-74	588	73
1974-75	550	27

Source: Reports by the colleges to the Academy study staff, July 1975.

* Includes capital gains realized on sale of securities.

Administrative leaders of the colleges of podiatric medicine believe they are unlikely to obtain a substantial amount of endowment funds for their colleges in the near future. This circumstance adds to the problem of heavy future dependency on students as the primary source of financing.

6. Income from Clinic Operations

All of the colleges of podiatric medicine maintain foot clinics. The original purpose, and still one of overriding importance, is to provide clinic education opportunities for the students. Other purposes are to provide a measure of public service, particularly to low-income groups, and as a source of income to cover a portion of operating costs. Clinic operations have grown substantially in recent years. This expansion has been assisted by the recognition by Medicare and Medicaid agencies that the services being performed are medically required by the patients and qualify for substantial levels of cost reimbursement.

A summary of income and expenditures since 1970 of the clinics operated by the five colleges of podiatric medicine is in the table that follows:

Table 32

Income and Expenditures at Clinics
Operated by Colleges of Podiatric Medicine

1970 - 1975

Academic Year	Gross Income from Charges to Patients	Clinic Operating Expenditure	Excess or (Deficit) of Income Over Expenditures
		(In thousands of dollars)	
1969-70	$1,484	$1,100	$384
1970-71	1,483	1,007	476
1971-72	1,810	1,021	789
1972-73	1,840	1,704	136
1973-74	1,868	2,239	(371)
1974-75	1,963	2,731	(768)

Source: Reports from the colleges to the Academy study staff, July 1975.

Note: Deficits in 1973-74 and 1974-75 were caused by the replacement at some colleges of part-time personnel by full-time clinical staffs.

7. Income from Auxiliary Enterprises

Until now, the amount of funds in this category has been negligible, coming from rents on a small amount of service property and the operation of small bookstores. During the next few years the amounts will become significant as the colleges occupy new buildings, complete construction of dormitories, and expand student support services.

The cost of operating auxiliary enterprises will also go up whatever profits from operations that may be expected will not be large enough to make any significant difference in the funding of instruction costs in the future.

8. Miscellaneous Receipts

The seven sources of funds described above represent the only significant sources of funding available to the colleges. Miscellaneous receipts from various and sundry sources involve a negligible amount of funds for the colleges of podiatric medicine.

Appendix C

Summary of the Seven Major National Loan Programs Established for College and University Students

College and university students finance their education from seven sources of funds. These are:

- funds from their parents or friends;
- funds from their own savings accumulated prior to enrolling in college;
- funds from outside work while enrolled in college;
- funds from college work-study programs;
- scholarship assistance from government agencies, the colleges themselves, or other private sources;
- welfare, social security, veterans, and other governmental payments;
- loans, primarily those provided under the various governmental programs. (Other sources of loan funds represent only a small percentage of the total borrowing.)

The seven major national loan programs for college and university students are:

1) Guaranteed Student Loan Program (including the Federal Insured Student Loan Program)
2) National Direct Student Loan Program
3) Health Professions Student Loan Program
4) Nursing Student Loan Program
5) Law Enforcement Education Program Loans
6) United States Loan Program for Cuban Students

7) Graduate and Professional School Loan Program of United Student Aid Funds, Inc.

Although only two of these programs are available to students of podiatric medicine, the staff found that a comparison of the details of the various programs was helpful as work proceeded on developing a plan for podiatry students. Exhibits in a uniform format summarizing each of the plans were prepared, therefore, and are presented in the following sections of this appendix.

Table 33

Summary of the Guaranteed Student Loan Program (Including the Federal Insured Student Loan Program)

Item	Summary Description
PURPOSE	To make it possible for students to borrow from private lenders to help pay for higher and vocational education.
PROGRAM ADMINISTRATION	The program is administered by the Office of Education. Capital for the Guaranteed Student Loan Program (GSL) is provided primarily by private lending institutions. Loans are insured by the Federal Government in one of two ways: • a state or eligible private nonprofit agency "guarantees" the loan which is reinsured by the Federal Government (25 of the 27 guarantee agencies participate in the reinsurance program with the Federal Government); • under the Federal Insured Student Loan Program (FISL) the Federal Government directly insures loans, through lenders, for students without access to state or other guarantee programs. Loans are made at the discretion of the lender after approval by the guarantee agency or, for FISL loans, by the Office of Education. Federal loan funds may be advanced to state programs or nonprofit private institutions or organizations if they are matched on a 50/50 basis with non-federal funds. To encourage participation of private lenders, the Federal Government pays a special allowance (current maximum three percent) on outstanding GSL loan balances to holders of GSL loans. In 1972 Congress authorized the establishment of the government-sponsored, private Student Loan Marketing Association (Sallie Mae) which serves as a secondary market and warehouse for student loan paper.

(continued)

Table 33

Summary of the
Guaranteed Student Loan Program (continued-2)

Item	Summary Description
PROGRAM RESPONSIBILITIES	Lenders: Make and collect loans, inform the student and the guarantor when the loan has been assigned to another owner. This last responsibility is shared equally by the purchaser of student loans. Federal Government: Subsidizes loan interest payments for eligible borrowers during the in-school years and deferment periods. In cases of default, and only after the lender has exercised "due diligence" in recovering payments, the Commissioner of Education is responsible for payment to the lender of the insured amount of the claim, and assumes responsibility for recovering such payment from the borrower. Guarantee agencies: Approve loans, insure loans, and work with lenders in loan collection. Institutions: Must provide lenders with correct information about an applicant's enrollment and academic standing and the estimated costs of attendance, as well as recommendations for government interest subsidy when applicable. Borrowers: Must inform the lender of changes in enrollment status, name, address, etc.
ELIGIBLE LENDERS	Financial or credit institutions which are subject to examination and supervision by the state or Federal Government, as well as state agencies and educational institutions as approved by the Commissioner of Education.
ELIGIBLE INSTITUTIONS	To participate in the program, an institution must be one of the following: • an accredited institution of higher education offering at least a two-year program; • an accredited public or nonprofit vocational

(continued)

Table 33

Summary of the
Guaranteed Student Loan Program (continued-3)

Item	Summary Description
ELIGIBLE INSTITUTIONS (continued)	institution of higher education offering at least a 300 clock-hour program (for correspondence courses, at least an average of 12 hours of preparation a week over a 12-week period is required); • a foreign institution comparable to a U.S. institution of higher education or a vocational school which has been approved by the Commissioner of Education (with respect to loans to nationals of the United States only).
ELIGIBLE STUDENTS	An applicant must be: • accepted by or enrolled in an eligible school; • a citizen or national of the United States, or in the United States for other than a temporary purpose; and • at least a half-time student (some states require full-time attendance). Residency requirements vary among the states.
AMOUNT OF LOAN	A maximum of $2,500 per academic year may be borrowed by students in most states. Total loans outstanding may not exceed $7,500 for undergraduate or vocational students; $10,000 for graduate study. Maximum loan may never exceed the cost of education less other financial aid received. Loans may be used for any educational expense, including board and room, books and supplies, transportation, and personal expenses, in addition to tuition and fees.
LOAN TERMS	Affidavit: Borrowers must execute a notarized affidavit that the proceeds of the loan will be used only for payment of education expenses.

(continued)

Table 33

Summary of the
Guaranteed Student Loan Program (continued-4)

Item	Summary Description
LOAN TERMS (continued)	Promissory Note: Borrowers must sign a promissory note for each loan. Grace Period: The grace period is nine months to one year after the date the borrower ceases to be at least a half-time student. Repayment: Repayment usually begins immediately after the grace period, normally in monthly installments over a period of five to ten years. A minimum of $360 per year must be paid on each loan. Loans may be prepaid at any time without penalty. Interest: Interest not to exceed seven percent begins accruing immediately on the unpaid loan balance. A borrower whose adjusted family income is less than $15,000 automatically qualifies for federal interest benefits on loans totaling up to $2,000 per academic year (others whose adjusted family income exceeds $15,000 or who wish to borrow more than $2,000 per year may also be eligible based on an assessment of need). For eligible borrowers, the Office of Education pays directly to the lender all interest charges as they accrue prior to the repayment period. All students are responsible for paying interest charges during the repayment period. Insurance: An insurance premium of one percent each year of the total loan amount outstanding is collected in advance by the lender from the borrower under state or private guarantee agency programs; under FISL the premium is limited to 1/4 of one percent. Loan Cancellation: Full cancellation of a borrower's unpaid loan balance plus accrued interest is allowed under any of the following circumstances: • death • permanent and total disability • official notification of bankruptcy

(continued)

Table 33

Summary of the
Guaranteed Student Loan Program (continued-5)

Item	Summary Description	
LOAN TERMS (continued)	**Deferment**: Repayment may be deferred for: • active duty in the Armed Forces (up to three years) • full-time service in the Peace Corps or VISTA (up to three years) • return to full-time study at an eligible school. The Federal Government resumes interest payments during a deferment period for eligible students.	
PROGRAM BEGAN	1966	
PROGRAM TERMINATES	1976 (legislation for continuation of the program is pending).	
	Inception Through Fiscal Year 1975	Fiscal Year 1975
NUMBER OF LOANS	7,950,000	995,000 (est.)
DOLLAR VOLUME	$8.23 billion	$1.49 billion (est.)

Table 34

Summary of the
National Direct Student Loan Program

Item	Summary Description
PURPOSE	To provide low-interest-bearing loans at eligible higher education and vocational institutions for needy undergraduate and graduate students.
PROGRAM ADMINISTRATION	The Office of Education annually distributes to participating schools National Direct Student Loan (NDSL) funds in amounts determined by an allotment formula and applications for funding submitted by the schools. Each participating school must establish a student loan fund to which it contributes (from its own funds) one-ninth of the amount of the federal contribution. Institutions are reimbursed each fiscal year by the Office of Education for the amount of their outstanding student loans that have been cancelled. These monies are returned to the fund, as are collections on student loans.
PROGRAM RESPONSIBILITIES	Institutions: receive student applications, determine eligibility and the amount of the loan according to a needs-analysis system subject to approval of the Office of Education; disburse loans to borrowers; make loan collections; and provide fund accounting reports to the Commissioner of Education. Borrowers: must inform the lending school of any changes in name or address until the loan is paid.
ELIGIBLE INSTITUTIONS	To participate in the program all institutions must be: • located in the United States, its territories or possessions; and • an accredited public or nonprofit institution of higher education offering at least a two-year program applicable toward a bachelor's degree; or • an accredited public or nonprofit vocational

(continued)

Table 34

Summary of the
National Direct Student Loan Program (continued-2)

Item	Summary Description
ELIGIBLE INSTITUTIONS (continued)	institution of higher education offering not less than a one-year program; or • an accredited proprietary institution providing at least a six-month program of training for a recognized occupation, which admits as regular students only those with a secondary-school certificate or equivalent, and which has been in existence for at least two years.
ELIGIBLE STUDENTS	An applicant must be: • a citizen or national of the United States, or in the United States for other than a temporary purpose; • enrolled or accepted for enrollment as at least a half-time student in a participating institution; and • in need of the loan to pursue a course of study. Exclusions: In accordance with federal regulations, no student of medicine, dentistry, osteopathy, optometry, podiatry, veterinary medicine, pharmacy, nursing, or criminal justice who may be eligible for a Health Professions Student Loan, a Nursing Student Loan, or a Law Enforcement Education Loan may receive a loan under the NDSL program.
AMOUNT OF LOAN	Undergraduates in their first two years or students in vocational programs may borrow a total of $2,500 (the maximum loan per year). Undergraduates who have completed two years of study toward the bachelor's degree may borrow up to a total of $5,000 (including amounts borrowed during the first two years). Graduate or professional-degree students may borrow up to a total debt of $10,000 (including amounts borrowed as an undergraduate).

(continued)

Table 34

Summary of the
National Direct Student Loan Program (continued-3)

Item	Summary Description
LOAN TERMS	Affidavit: Borrowers must sign an affidavit stating the loan will be used only for education expenses. Promissory Note: Borrowers must sign a promissory note for each loan. Grace Period: No repayments are required and no interest accrues during the grace period of nine consecutive months immediately following termination of at least half-time study. Repayment: Loans plus accrued interest are payable over ten years, beginning immediately after the grace period expires. Repayments are made in equal monthly, bi-monthly, or quarterly installments, at a rate of not less than $30 per month. There is no penalty for prepayment. Interest: Interest begins to accrue at the rate of three percent per year immediately after the grace period expires, but not during periods of deferment. Loan Cancellation: Cancellation is available for: • full-time teaching in a public or other nonprofit elementary or secondary school with a high concentration of students from low-income families or for full-time teaching of handicapped children in a public or other nonprofit elementary or secondary school system (at the rate of 15 percent of the total outstanding principal amount of the loan plus accrued interest for each of the first and second years, 20 percent for each of the third and fourth years, and 30 percent for the fifth year). • work as a full-time staff member in a Headstart program, provided salary is no more than that of comparable local employees (at the rate of

(continued)

Table 34

Summary of the National Direct Student Loan Program (continued-4)

Item	Summary Description
LOAN TERMS (continued)	15 percent per year plus accrued interest, up to 100 percent of the loan). • service as a member of the Armed Forces in an area of hostilities (at the rate of 12.5 percent of principal plus accrued interest for each year up to 50 percent of the loan). Full cancellation of a borrower's unpaid loan balance is allowed upon receipt of official notification of bankruptcy. Deferment: Repayment may be deferred and no interest accrues during periods of • service in the Armed Forces, Peace Corps, or VISTA (up to three years).
PROGRAM BEGAN	1959 (originally the National Defense Student Loan program).
PROGRAM TERMINATES	1976 (legislation for continuation of the program is pending).
	Inception Through Fiscal Year 1975
NUMBER OF LOANS	6.5 million loans involving an estimated 3.5 million students.
DOLLAR VALUE	$5.2 billion of which the federal contribution was $2.8 billion.

Table 35

Summary of the Health Professions Student Loan Program

Item	Summary Description
PURPOSE	To provide long-term, low-interest loans to students in specified health professions.
PROGRAM ADMINISTRATION	Federal funds are allocated annually by the National Institutes of Health to participating schools of medicine, dentistry, osteopathy, optometry, pharmacy, podiatry, and veterinary medicine. If requests for funds exceed the amount available, allotments are determined by statutory formula. Each participating school must establish a Federal Capital Contribution Fund, to which the institution contributes from its own funds one-ninth the amount of the Federal contribution. Collections of principal and interest on student loans are returned to the fund and re-lent to students. Institutions submit fund administration reports to the U.S. Government on an annual basis.
PROGRAM RESPONSIBILITIES	Institutions: Select loan recipients according to needs-analysis system, determine amounts of loans, and disburse loans to borrowers; inform students regarding interest charges on the loans; conduct exit interviews when borrowers leave school; make loan collections. Borrowers: Must inform lending school of any change of name or address until loans are paid.
ELIGIBLE INSTITUTIONS	To participate in the program a school must be: • an accredited public or nonprofit private school of medicine, dentistry, osteopathy, optometry, pharmacy, podiatry, or veterinary medicine offering a program leading to the first professional degree; and • located in the United States, its possessions or territories.
ELIGIBLE STUDENTS	An applicant must be: • a citizen or national of the United States, or

(continued)

Table 35

Summary of the Health Professions Student Loan Program (continued-2)

Item	Summary Description
ELIGIBLE STUDENTS (continued)	in the United States for other than a temporary purpose; • enrolled or accepted for enrollment as a full-time student in a participating school; and • in need of a loan to pursue a course of study. Exclusions: Preprofessional students, interns, residents, and students pursuing advanced training are not eligible for a health professions student loan. National Direct Student Loan (NDSL) program: So long as a school participates in the Health Professions Student Loan program, no student eligible for a health professions loan may receive an NDSL loan (in accordance with the Health Professions Educational Assistance Act of 1963 and subsequent amendments to the Public Health Service Act).
AMOUNT OF LOAN	Legislation provides for a maximum loan of $3,500 per year; however, in reality, the maximum amount varies from year to year according to program appropriations and is substantially below the maximum authorization.
LOAN TERMS	Promissory Note: Borrowers must sign a promissory note for each loan. Grace Period: The grace period, during which interest does not accrue and repayments are not required, begins immediately after the borrower ceases to be a full-time student. Loans made after June 30, 1969 have a one-year grace period; loans made prior to July 1, 1969 have a three-year grace period. Repayment: Loans plus accrued interest are payable over ten years, beginning immediately after the end of the grace period. Repayments are made in equal or graduated installments. There is no

(continued)

Table 35

Summary of the
Health Professions Student Loan Program (continued-3)

Item	Summary Description
LOAN TERMS (continued)	penalty for loan prepayment. (Note: borrowers intending to practice in a shortage area will have to consider that prepayments will result in a reduced base upon which the amount of yearly cancellation is calculated.) Interest: Interest begins accruing immediately after the grace period, but not during periods of deferment. All loans made after June 30, 1969 carry an interest rate of three percent per year. Loans made prior to that date carry the interest rate then in effect. Loan Forgiveness: Students who received loans on or after November 18, 1971, and who fail to complete their health professions studies, may have their outstanding loans repaid by the Secretary if they • are in exceptionally needy circumstances; • are from a low-income or disadvantaged family; and • cannot be expected to resume study within two years. Loan Cancellation: Full cancellation of a borrower's unpaid Health Professions Loan Balance plus accrued interest is allowed for: • death • permanent and total disability Cancellation of Health Professions Loans Made Prior to November 18, 1971: Cancellation provisions in effect at the time these loans were made are still available to those borrowers who • are licensed to practice medicine, osteopathy, dentistry, or optometry.

(continued)

Table 35

Summary of the Health Professions Student Loan Program (continued-4)

Item	Summary Description
LOAN TERMS (continued)	• agree to practice in a designated shortage area for twelve consecutive months; and • receive certification of eligibility for cancellation from the appropriate State Health Authority. Such cancellation is available for up to • 50 percent of the unpaid balance of the borrower's Health Professions Loans at the rate of ten percent for each complete year of practice in a shortage area certified by the State Health Authority; • 100 percent of the unpaid balance of the Health Professions Loans at the rate of fifteen percent per year for practice in a shortage area also designated rural and low-income. Or, students with loans made before November 1971 may choose to enter into an agreement with the Secretary of Health, Education, and Welfare to serve in a shortage area, whereby portions of their outstanding loans may be repaid by the Secretary. Repayment of Health Professions Loans Made After November 18, 1971: These loans may be repaid in part under agreements with the Secretary of Health, Education, and Welfare as follows: Repayment of Loans Under Agreement with the Secretary of Health, Education, and Welfare to Serve in a Shortage Area: Individuals who have received a degree of doctor (or equivalent) in medicine, dental surgery, osteopathy, optometry, podiatry, pharmacy (B.S. or equivalent), or veterinary medicine, may enter into agreement with the Secretary of Health, Education, and Welfare, at

(continued)

Table 35

Summary of the
Health Professions Student Loan Program (continued-5)

Item	Summary Description
LOAN TERMS (continued)	his discretion, for repayment of a portion of all eligible education loans incurred in meeting costs of attending a health professions school, in return for two or three consecutive years of service in a designated shortage area. Under the agreement, balances of eligible loans outstanding at the beginning date of service plus interest are repaid as each loan installment falls due, with an additional payment at the end of the service period to bring the total payment by the Secretary up to 85 percent of the outstanding balance, plus interest, as of the beginning date of service as follows: • 60 percent after completion of the second year of service; • an additional 25 percent after completion of a third year of service. Failure to complete two years of service makes the borrowers liable to reimburse the Secretary of Health, Education, and Welfare for any payments made on their behalf; failure to complete the third year (if such a contract were entered into) makes the borrowers liable to reimburse the Secretary for payments made on their behalf for the third year. Deferment of Payment: Repayment is deferred and no interest accrues during periods when the borrower: • re-enters (within the grace period) an eligible health professions school for full-time study; • performs full-time, active duty in the Armed Forces, National Ocean Survey, or U.S. Public Health Service, or serves as a volunteer under the Peace Corps Act (up to three years);

(continued)

Table 35

Summary of the
Health Professions Student Loan Program (continued-6)

Item	Summary Description
LOAN TERMS (continued)	• pursues advanced professional training of at least one academic year beyond the first professional degree, including internships and residencies. (Note: For loans dated on or after November 18, 1971, there is no limitation on periods of advanced professional training which may be deferred. For loans made before November 18, 1971, but after June 30, 1969, deferable periods of advanced training are limited to five years. For loans made before July 1, 1969, periods of advanced professional training of up to five years may be deferred subject to the lender's and the Secretary's approval -- provided that in no case may the total length of the deferment and grace period exceed six years.)
PROGRAM BEGAN	1965
PROGRAM TERMINATES	1976 (legislation for continuation of the program is pending).

	Inception Through Fiscal Year 1975 (estimated)	Fiscal Year 1975 (estimated)
NUMBER OF LOANS	261,422	29,211
DOLLAR VOLUME	$282,843,476	$35,980,000

Table 36

Summary of the
Nursing Student Loan Program

Item	Summary Description
PURPOSE	To provide long-term, low-interest loans to students of nursing.
PROGRAM ADMINISTRATION	Federal funds are allocated annually by the National Institutes of Health to participating schools of nursing. If requests for funds exceed the amount available, allotments are determined by statutory formula. Each participating school establishes a Nursing Student Loan Fund to which the school contributes from its own funds not less than one-ninth the amount of the federal contribution. Collections of principal and interest on student loans are returned to the fund and re-lent to students. Institutions submit fund administration reports on an annual basis to the U.S. Government.
PROGRAM RESPONSIBILITIES	Institutions: select qualified applicants and make determination of need; maintain records of approval and disapproval of applications; inform students about interest charges before a loan is made and conduct exit interviews with borrowers before they withdraw from school; make loan collections; and submit fund administration reports to the Secretary of Health, Education, and Welfare. Borrowers: must inform the school of any change of name or address until loans are paid.
ELIGIBLE INSTITUTIONS	To be eligible to participate, a school must be: • an accredited public or nonprofit private school of nursing offering a program leading to not less than a diploma in nursing; • located in the United States, its possessions, or territories.
ELIGIBLE STUDENTS	An applicant must be: • a citizen or national of the United States, or in the U.S. for other than a temporary purpose;

(continued)

Table 36

Summary of the Nursing Student Loan Program (continued-2)

Item	Summary Description
ELIGIBLE STUDENTS (continued)	• enrolled, or accepted for enrollment, in an eligible school as at least a half-time student; and • in need of the loan to pursue a course of study. Exclusions: So long as a school participates in the Nursing Student Loan Program, no student eligible for a Nursing Student Loan may receive a National Direct Student Loan.
AMOUNT OF LOAN	A maximum of $2,500 may be borrowed per academic year up to an aggregate of $10,000. If a student is enrolled in a course of study exceeding the nine-month academic year, the annual maximum may be increased proportionately -- the maximum aggregate, however, remains the same.
LOAN TERMS	Promissory Note: Borrowers must sign a promissory note for each loan. Grace Period: Repayment of principal is not required and interest does not accrue during the grace period which begins immediately when the borrower ceases to be at least a half-time student. Loans made after June 30, 1969 have a nine-month grace period; loans made prior to July 1, 1969 carry a one-year grace period. (Note: for loans made prior to November 17, 1971, the grace period begins when the borrower ceases to be a full-time student.) Repayment: Repayment begins immediately after the grace period, with equal or graduated installments extending over a period of ten years. There is no penalty for prepayment. (Note: Students planning to enter employment as registered nurses for loan cancellation purposes will have to consider the effect of prepayments on the base amount on which yearly cancellation is calculated.) Interest: All loans made after June 30, 1969 carry

(continued)

Table 36

Summary of the
Nursing Student Loan Program (continued-3)

Item	Summary Description
LOAN TERMS (continued)	an interest rate of three percent per year, which begins to accrue after the grace period expires, but does not continue during periods of deferment. Loan Cancellation: Full cancellation of a borrower's unpaid loan balance, plus accrued interest, is allowed under either of the following circumstances: • death • permanent and total disability Cancellation of Nursing Student Loans Made After November 17, 1971: Cancellation of up to 85 percent of these loans is available for full-time employment as a registered nurse in a public or nonprofit private agency, institution, or organization, at the rate of 15 percent of the loan balance outstanding on the date of beginning such employment, for each of the first, second, and third complete year of employment, and 20 percent for each complete fourth and fifth year. Cancellation of Nursing Student Loans Made Prior to November 17, 1971: Cancellation of up to 50 percent of the total amount of these loans plus interest is available for full-time employment as a registered nurse in any public or nonprofit private institution or agency, at the rate of ten percent of the total of such loan plus interest unpaid at the date of beginning such employment, for each year of eligible employment. Cancellation of up to 100 percent of the total amount of the borrower's loans plus interest is available for full-time employment as a registered nurse in a public or other nonprofit hospital in a designated shortage area, at the rate of 15 percent of the total amount of loans, plus interest, unpaid on the date such employment begins for each complete year of employment.

(continued)

Table 36

Summary of the
Nursing Student Loan Program (continued-4)

Item	Summary Description
LOAN TERMS (continued)	*Repayment of Loans Under Agreement with the Secretary of Health, Education, and Welfare to Serve in A Shortage Area:* Individuals who have received a diploma, associate, B.A. (or equivalent), or graduate degree in nursing may enter into agreement with the Secretary at his discretion for repayment of a portion of *all* eligible education loans incurred in meeting costs of attending a school of nursing, in return for two or three consecutive years of full-time service as a registered nurse in a designated shortage area. Under the agreement, balances of eligible loans outstanding at the beginning date of service plus interest are repaid as each loan installment falls due, with an additional payment at the end of the service period to bring the total payment by the Secretary up to: • 60 percent (of outstanding balance plus interest as of the beginning date of service) after completion of the second year of service; • an additional 25 percent, up to 85 percent (of outstanding balance plus interest as of the beginning date of service) after completion of a third year of service. Failure to complete two years of service makes the borrowers liable to reimburse the Secretary for any payments made on their behalf; failure to complete the third year (if a three-year agreement were contracted for) makes the borrowers liable to reimburse the Secretary for similar payments made on their behalf for the third year. *Deferment:* Interest does not accrue and repayment is not required during periods when a borrower: • re-enters (within the grace period) an eligible

(continued)

Table 36

Summary of the
Nursing Student Loan Program (continued-5)

Item	Summary Description	
	school of nursing for not less than a half-time course of study; ● serves as a member of a uniformed service or the Peace Corps (up to three years); ● pursues advanced professional training in nursing. (Note: for loans made before July 1, 1969, all such periods are deferable. For loans made after June 30, 1969, this period is limited to five years.)	
PROGRAM BEGAN:	1965	
PROGRAM TERMINATES:	1978	
	Inception Through Fiscal Year 1975	Fiscal Year 1975
NUMBER OF LOANS:	253,179	22,500
DOLLAR VOLUME	$177,007,858	$22,800,000

Table 37

Summary of the
Law Enforcement Education Program Loans

Item	Summary Description
PURPOSE	To provide higher education loans to students majoring in degree programs in preparing them for criminal justice employment.
PROGRAM ADMINISTRATION	The Law Enforcement Assistance Administration (LEAA) under the general authority of the Attorney General administers the Law Enforcement Education Program (LEEP) through its ten regional offices. The annual LEAA appropriation is distributed among the regional offices which evaluate annual applications from eligible institutions. All funds disbursed to an institution must be accounted for at the end of the fiscal year, either in the form of approved student awards and/or refund of unexpended dollars.
PROGRAM RESPONSIBILITIES	Federal Government: Regional offices direct, monitor, and evaluate program activities. The Office of the Controller processes all institutional grants and student notes and supervises billing and collection activities. Institutions: Determine student eligibility, according to LEAA guidelines; assign loans to eligible students; obtain borrowers' signatures on notes; provide career and financial counseling for pre-service students (those not yet employed full-time in criminal justice) and maintain appropriate program records. Borrowers: Must inform lending school or LEAA of any change of name or address after ceasing to be full-time students.
ELIGIBLE INSTITUTIONS	To participate in the loan portion of LEEP, an institution must: • be a fully-accredited public or nonprofit institution of higher education offering at least a two-year program with credits applicable toward a bachelor's degree;

(continued)

Table 37

Summary of the
Law Enforcement Education Program Loans (continued-2)

Item	Summary Description
ELIGIBLE INSTITUTIONS (continued)	• be a degree-granting institution with authority to contract and manage federal funds; • offer a degree in a field of study in accordance with program guidelines; • develop and sponsor a criminal justice internship or work experience program as part of the preservice program, not dependent upon LEAA funding; and, • provide placement services for preservice students seeking criminal justice employment.
ELIGIBLE STUDENTS	An applicant must be: • a full-time professional employee of an eligible law enforcement or criminal justice agency, a state or local criminal justice planner, or a preservice student (i.e., not yet employed in a criminal justice agency but preparing for criminal justice employment); • enrolled or accepted for enrollment as a full-time student in a participating school in a program leading to a degree or certificate in a law enforcement-related area; • committed to obtaining or resuming full-time employment in criminal justice after completion of full-time study; • a citizen or national of the United States, or in the U.S. for other than a temporary purpose; • a holder of a Social Security number; and • at least a second-year student (preservice students only).

(continued)

Table 37

Summary of the
Law Enforcement Education Program Loans (continued-3)

Item	Summary Description
ELIGIBLE STUDENTS (continued)	(Note: Preference is given to police and corrections personnel on academic leave from state or local agencies.) **Exclusions**: An applicant may not be eligible for a LEEP loan if he/she receives other funds to pay the costs of tuition, books, and fees or is a law enforcement officer who will be reimbursed retroactively by a state or local government for education expenses. The LEEP guideline's manual provides further details about these exclusions.
AMOUNT OF LOAN	Maximum loan per academic year is $2,200, or the cost of tuition, fees, and books -- whichever is less. Personnel on academic leave to attend school full-time may qualify for loans beyond the cost of tuition, fees, and books -- but not to exceed $2,200.
LOAN TERMS	**Promissory Note**: A borrower must sign a promissory note for each loan. A co-signer is required in the case of a minor. **Grace Period**: The grace period, during which interest does not accrue and repayments are not required, begins immediately after the borrower ceases to be a full-time student, and continues for six months. Repayment: Loans plus accrued interest are payable over ten years, beginning immediately after the grace period expires. Repayments are made in equal quarterly installments of at least $150. There is no penalty for prepayment. **Interest**: Interest accrues at seven percent a year commencing at the beginning of the repayment period. **Loan Cancellation**: Full cancellation of the unpaid

(continued)

Table 37

Summary of the
Law Enforcement Education Program Loans (continued-4)

Item	Summary Description
LOAN TERMS (continued)	balance of a loan, plus accrued interest, occurs in case of death or permanent and total disability. Cancellation is available for up to 100 percent of the loan at the rate of 25 percent per year for each complete year of: ● service in full-time criminal justice employment (a full-time criminal justice employee on leave for educational purposes is entitled to cancellation credit while in school at the 25 percent per year rate); ● full-time teaching in a criminal justice related degree program at a LEEP participating institution. Deferment of Payment: Repayment is deferred and no interest accrues during periods when the borrower: ● serves as a member of the Armed Forces (up to 4 years); ● is a full-time student. Payment is deferred, but interest does accrue in approved cases of undue hardship when extraordinary circumstances prevent borrowers from repaying their loan obligations according to the established schedule.
PROGRAM BEGAN	1969
PROGRAM TERMINATES	1976
	Inception Through Fiscal Year 1975
NUMBER OF LOANS	129,710
DOLLAR VOLUME	$57,287,088 (estimated)

Table 38

Summary of the
United States Loan Program for Cuban Students

Item	Summary Description
PURPOSE	To provide long-term, low-interest-bearing loans to Cuban national "aliens" in the United States.
PROGRAM ADMINISTRATION	The Office of Education distributes loan funds to participating institutions of higher education on the basis of need estimates submitted at least one month prior to the beginning of each enrollment period.
ADMINISTRATIVE RESPONSIBILITIES	Participating institutions select the borrowers; determine, on the basis of need, the amount of the loans; and disburse the approved loans to the borrowers. The Federal Government collects the loans. Participating institutions must submit the students' applications and promissory notes to the Office of Education and report when borrowers cease to be students. The borrowers must inform the Office of Education of changes in status, name, address, etc., until the loans have been repaid.
ELIGIBLE INSTITUTIONS	To participate, an institution must: • be presently participating in the National Direct Student Loan Program; • execute an agreement with the Commissioner of Education to establish a Cuban Student Loan Fund and to make loans only to eligible Cuban students.
ELIGIBLE STUDENTS	An applicant must be: • a Cuban national with "alien" status in the U.S. who is currently participating in the program (no new applicants now being accepted); • enrolled or accepted for enrollment as at least

(continued)

Table 38

Summary of the
United States Loan Program for Cuban Students (continued-2)

Item	Summary Description
	a half-time undergraduate or graduate student in an eligible institution; and • in need of the loan to pursue a course of study.
AMOUNT OF LOAN	Undergraduates: maximum of $1,000 per academic year, not to exceed an aggregate total of $5,000. Graduate or professional degree students: maximum of $2,500 per academic year, the total aggregate loan (including undergraduate study) not to exceed $10,000. Summer study to accelerate progress toward a degree allows a borrower to exceed the maximum annual loan amounts by a maximum of $33.33 per summer credit hour for undergraduates and $83.33 for graduate work. Maximum annual loan, therefore, for students enrolling for a full year is $1,400 for undergraduates and $3,500 for graduates.
LOAN TERMS	Promissory Note: The borrower must sign a promissory note for each loan. Grace period: The grace period, during which no interest accrues and no payment is required, consists of 12 consecutive months immediately following the date the borrower ceases to be at least a half-time student. Repayment: In ten equal annual installments of principal and interest beginning immediately after the grace period expires. There is no penalty for prepayment. Arrangements can be made before the grace period ends to pay the amount due annually in several installments. Interest: Interest begins to accrue at the rate of three percent per year immediately after the grace period expires, but not during periods of deferment.

(continued)

Table 38

Summary of the
United States Loan Program for Cuban Students (continued-3)

Item	Summary Description
LOAN TERMS (continued)	Loan Cancellation: Full cancellation of a borrower's outstanding loan balance, plus accrued interest, is allowed under any one of the following circumstances: ● death ● permanent and total disability ● official notification of bankruptcy Cancellation of Loans Made Prior to July 1, 1972: Cancellation of up to 100 percent of the total outstanding principal amount of the loan plus accrued interest is available for: ● full-time teaching, beginning academic year 1969-70, in a public or other nonprofit school with a "high concentration of students from low-income families," or for teaching handicapped children in a public or other nonprofit elementary or secondary school (at a rate of 15 percent per year). Partial cancellation is available for: ● full-time teaching service in a public or other nonprofit elementary or secondary school, institution of higher education, or other institution participating in the National Direct Student Loan program (at the rate of 10 percent per year up to a maximum of 50 percent of the outstanding loan balance plus accrued interest). Cancellation of Loans Made on or After July 1, 1972: Cancellation of up to 100 percent of the total outstanding principal amount of the loan plus accrued interest is available for: ● full-time teaching in a public or other nonprofit elementary or secondary school with a high concentration of students from low-income

(continued)

Table 38

Summary of the
United States Loan Program for Cuban Students (continued-4)

Item	Summary Description
LOAN TERMS (continued)	families; or as a full-time teacher of handicapped children in a public or other nonprofit elementary or secondary school system (at a rate of 15 percent for each of the first and second years, 20 percent for each of the third and fourth years, and 30 percent for the fifth year); ● full-time staff work in a Headstart program, provided salary is no more than that of comparable local employees (at the rate of 15 percent per year). Partial cancellation is available for: ● service as a member of the Armed Forces in an area of hostilities (at the rate of 12.5 percent per year for up to 50 percent of the loan plus accrued interest). Deferment of Payment: Repayment may be deferred for any period during which the borrower: ● is at least a half-time student at an eligible institution of higher education; ● is a member of the Armed Forces of the United States, or a volunteer in VISTA or the Peace Corps (up to three years).
PROGRAM BEGAN	1961
PROGRAM TERMINATES	1977
	Inception Through Fiscal Year 1975
NUMBER OF BORROWERS	16,012
DOLLAR VOLUME	$33,351,161

Table 39

Summary of the Graduate and Professional School Loan Program of United Student Aid Funds, Inc.

Item	Summary Description
PURPOSE	To make loan funds available to graduate and professional students in the fields of medicine, dentistry, business, and law.
PROGRAM ADMINISTRATION	Participating institutions, or associations of institutions, deposit with United Student Aid (USA) Funds one-tenth of the amount of loans to be made available to their students. USA Funds acts as guarantor for loans capitalized by the lending institution (the principal lender to date has been Student Life Funding, Inc.). USA Funds program administration costs come from earnings on institutional deposits. An endorsement fee equal to one-half of one percent of the outstanding principal balance on all loans is charged by USA Funds to establish a special fund in the name of each institution to cover defaults and/or cancellations on loans to its students. When default losses exceed the assets of this fund they are paid from the institution's reserve deposit.
PROGRAM RESPONSIBILITIES	Institutions: process loan applications and promissory notes which are sent to USA Funds. USA Funds: guarantees loans; maintains records of each institution's fund accounts. Lending Institution: approves notes and loans cosigned by USA Funds; disburses loans to borrowers; makes loan collections.
ELIGIBLE INSTITUTIONS	To participate in the program, an institution must: • be an accredited school of medicine, dentistry, law, or business offering a graduate and/or professional degree program; • be located in the United States, its territories, or possessions; and

(continued)

Table 39

Summary of the
Graduate and Professional School Loan Program
of United Student Aid Funds, Inc. (continued-2)

Item	Summary Description
ELIGIBLE INSTITUTIONS (continued)	• have a deposit with USA Funds.
ELIGIBLE STUDENTS	An applicant must be • a citizen, national, or permanent resident of the United States; and • enrolled or accepted for enrollment in a participating school.
AMOUNT OF LOAN	A maximum of $5,000 can be borrowed per academic year, with an aggregate of $9,000 for business and law students and $17,500 for dental or medical students (including post-doctoral study). Loans are made in graduated amounts beginning at a minimum of $500 and increasing by increments of $250 up to $2,000, and beyond that in $500 increments to the $5,000 annual maximum.
LOAN TERMS	Promissory Note: A borrower must sign a promissory note for each loan. Grace Period: The grace period, during which interest accrues but repayments are not required, begins on April 1 of the year of graduation and varies by field as follows: • up to two years for business and law students; • up to three years for dental students; • up to five years for medical students. Students who withdraw from school are allowed a grace period of six months, beginning from the date of withdrawal. Repayment: Loans plus accrued interest are payable over seven years in equal monthly consolidated installments. There is no penalty for prepayment.

(continued)

Table 39

Summary of the Graduate and Professional School Loan Program of United Student Aid Funds, Inc. (continued-3)

Item	Summary Description	
LOAN TERMS (continued)	(Note: Loans are made for a specified number of months which include the in-school, grace, and repayment periods. All loans made to an individual are due and payable on the same date, regardless of when contracted for.) Interest: Interest begins accruing immediately at the rate of 11 percent a year including the endorsement fee. Loan Cancellation: Full cancellation of the unpaid loan balance occurs in cases of ● death ● total and permanent disability ● official notification of bankruptcy Deferment of Payment: Deferment may be arranged at the discretion of the lending institution and USA Funds for periods of: ● active military service; ● service in ACTION, VISTA, or the Peace Corps; ● extreme hardship.	
PROGRAM BEGAN	October 1972	
PROGRAM TERMINATES	Ongoing	
	Inception Through Fiscal Year 1975	Fiscal Year 1975
NUMBER OF LOANS	10,000	4,850
DOLLAR VOLUME	$13,500,000	$7,300,000

Note on Program of United Student Aid Funds, Inc.

Recent events have occurred which may jeopardize continuation of the Graduate and Professional School Loan Program of United Student Aid Funds, Inc. The principal lender in the program, Student Life Funding, Inc., has given notice that it will curtail its involvement in the program. Mr. M.D. Miller, Chairman of the Board, in a letter to United Student Aid Funds, Inc., noted that Student Life Funding was having great difficulty in borrowing funds at reasonable rates to finance the graduate and professional school student loan program under present economic conditions. He said:

> Little relief appears in prospect with respect to the level of interest rates.
>
> Therefore, it is with regret that we must advise you that our future commitment to the program will have to be limited. We plan to meet the needs of student borrowers for the 1975-1976 academic year and will lend additionally as required in subsequent years to those students who are already borrowers from SLF.
>
> We understand the former requirement will be for approximately $8 million of additional loans and the latter an estimated further amount of $6 million through 1979. With these additions, we expect the volume of SLF tuition loans outstanding will grow to a total of some $26 million. We are not prepared to increase our lending beyond this level.

In a letter to program participants, Mr. Ranald P. Hobbs, Regional Vice President of United Student Aid Funds, Inc., noted:

> My associates at United Student Aid Funds, Inc. and I are profoundly disturbed, of course, by this threatened curtailment of a loan program that has proved so quickly and so widely beneficial to so many graduate students in the fields of business, law, dentistry, and medicine. I hardly need add that we shall do everything possible to find lenders to fill the void ...

Only time will tell whether the early successes of the Graduate and Professional School Loan Program can be continued.

Appendix D

Bankruptcy as a Problem in Loans to Students of Podiatric Medicine

As indicated in Appendix G, a typical student of podiatric medicine borrows about $11,000 at the present time to get through college. By 1980, or shortly thereafter, students can be expected to be borrowing $30,000 to $50,000 on the average to meet rising tuition and other education costs. Lenders and government officials handling student loan programs are concerned understandably that rising loan totals may lead students to declare bankruptcy on the completion of their schooling but before going into practice, thus avoiding repaying their education loans. They foresee an increasing problem during the next few years with respect to some of the eight million loans outstanding to liberal arts, vocational, technical, and many other types of students, particularly those who attend proprietary schools because:

- under present economic conditions of inflation and higher than usual unemployment, many students are having difficulty in finding jobs after graduation and are running into unexpected difficulties in repaying their education loans;
- practically any students just out of college (as a graduate or a dropout) with a student loan debt can demonstrate that liabilities exceed assets. Accordingly, if they wish, they can take advantage of the discharge privileges available under the current provisions of the bankruptcy laws;
- recent publicity on a few students who have successfully used bankruptcy as a way of discharging their education debts may inspire other "smart" students to follow suit.

At the moment, however, bankruptcy involves only a negligible proportion of the student borrowers. The main problems are defaults and slow payments. Progress in tackling these problems is being made through the establishment of better collection procedures, more follow-ups, counseling, etc.

The study staff and the Panel concluded that for three reasons bankruptcy is not likely to be a problem in loans to students of podiatric medicine:

1) The bankruptcy laws are up for revision. Proposals have been made to amend these laws to eliminate the possibility of discharging education loans through bankruptcy proceedings for five years after the first installment is due.

2) Students of podiatric medicine have assurance of virtually full employment after graduation and the potential of high future earnings. They should, therefore, have less reason to default or declare bankruptcy than would be the case with liberal arts or vocational students with lower earnings potential as well as higher risks of unemployment. Podiatric medical students also are subject to supervision by both professional associations and government licensing agencies which may decide to view default on education loans taken during training for the profession as an unethical act.

3) Until now, podiatrists and other health care professionals have had the option of repaying all or a large portion of their education loans by providing professional services in underserved areas at the discretion of the Secretary of Health, Education, and Welfare. If this option (not generally available to graduates in other vocational and professional fields) is continued by law, it should reduce by nearly 100 percent the need for podiatrists to seek bankruptcy as a way of discharging education debts.

Each of the reasons listed above is discussed in somewhat greater detail below.

1. Bankruptcy Laws Are Up For Revision

The legal provision for the discharge of debts by persons with liabilities far in excess of assets and with no possibility of repayment traces back to the Constitution. Although the current codification of the bankruptcy laws dates from 1898, the law has been amended on many occasions, sometimes after extensive hearings by Congressional committees. Over the years a number of exceptions from discharge from the bankruptcy laws have been incorporated in the statutes; for example, it is no longer possible to use bankruptcy procedures to avoid paying federal, state, or local taxes or fines, amounts due for alimony, claims for fraud, claims resulting from embezzlement, larceny, willful injury, etc.

In recent years the Commission on Bankruptcy Laws of the United States (created by Congress in 1970) and the National Conference of Bankruptcy Judges have conducted major studies and prepared reports on possible reforms of the bankruptcy laws. In January 1975, the Commission's recommendations were drafted in legislative language and introduced in the Senate by Senator Quentin Burdick as Bill S.236. The bill included the Commission's recommendation to exclude education loans from discharge under bankruptcy for a period of five years after the due date of the first installment except in cases where this exception would cause unbearable hardship.

Hearings on Bill S.236 were opened in February 1975 by the Senate Subcommittee on Improvements in Judicial Machinery* and were expected to continue for nearly a year, after which from six months to several years could elapse before legislation is finally passed.

In an effort to get quicker action on the matter of bankruptcy in relation to education loans, Dr. Terrel H. Bell, U.S. Commissioner of Education, urged the Senate Education Subcommittee chaired by Senator Claiborne Pell (D-R.I.) to include a special section on student loan bankruptcies in the Higher Education Bill before Congress during 1975 and early 1976.

In describing the Administration's position to Congress, Commissioner Bell said:

> There has been much criticism in the press over the number of students who borrow under the Guaranteed Student Loan Program and then fail to honor their obligation to repay by taking personal bankruptcy. While as a percentage of total loans or total defaults, bankruptcies are a relatively small part of the problem, in absolute numbers, the growth has been significant.
>
> A Congressionally appointed commission considering changes to the bankruptcy laws has recommended to the Congress that education loans be exempt from bankruptcy during the in-school period plus the first five years of repayment. As it may be a long time before the bankruptcy laws are revised, we are proposing a separate amendment to accomplish this purpose.

---

* The Chairman of the Subcommittee is Quentin N. Burdick (D-N.Dak.); other members of the subcommittee are John L. McClellan (D-Ark.), Philip A. Hart (D-Mich.), James Abourezk (D-S-Dak.), Roman L. Hruska (R-Neb.), and William L. Scott (R-Va.).

9

> Enactment of this provision will have an immediate effect on reducing the number of bankruptcies in the student loan program.

The Administration's proposal was included as Section 498A of the Education Amendments of 1975 bill (S.2657) introduced in the Senate by Senator Pell on November 12, 1975 and read in part as follows:

> A debt which is a loan insured or guaranteed under the authority of Part B of this title may be released by a discharge in bankruptcy under the Bankruptcy Act only if such discharge is granted after the five year period (exclusive of any applicable suspension of the repayment period) beginning on the date of commencement of the repayment period of such loan.

Commissioner Bell and other proponents of changes in the bankruptcy laws regarding student loans distinguish between student loans and other types of loans on the following grounds:

- Student loans (unlike other types of loans) carry, at the government's direction, low interest rates. These allow lenders only a small margin of profit and, correspondingly, a small margin for loss.
- Student loans (unlike other types of loans) are made on the lender's faith in the borrowers' future potential earnings rather than on their present earnings or collateral.
- Student loans are used to "buy" a lifelong personal asset by the borrower which cannot be repossessed by the lender.

    In brief, the argument goes, student loans are made at the government's instigation to serve educational rather than profit interests. They should be treated differently, therefore, in the bankruptcy court than would a commercial loan which at least attempts to provide the lender with a competitive rate of return, and business-type collateral.

- Bankruptcy was never intended to provide an escape hatch for student borrowers who enter into loan arrangements under circumstances in which they voluntarily and knowingly mortgage a portion of their future lifetime activities and earnings in return for an opportunity to obtain an education.

- Enactment of the proposed changes in the law would preserve the integrity and viability of the student loan program by making sure that individuals who borrow would see their obligations through to the fullest extent possible. At the same time, the undue hardship clause would protect persons who legitimately find themselves without assets and without any future expectation of accumulating either assets or income by allowing them to be relieved of their debts and given a "fresh start."

Opposition to the exemption of education loans from discharge under bankruptcy proceedings was presented during the Congressional subcommittee hearings on changes in the Bankruptcy Act by such associations as the National Conference of Bankruptcy Judges, the American Bankers Association, the Consumer Bankers Association, and the National Consumer Finance Association. The grounds for opposition are that the proposed exemption would give government agencies (as guarantors) and education institutions (as parties to the lending process) the status of privileged creditors.

At the time the Academy's report was prepared it was too early to determine the trend of thinking among members of the Congressional subcommittee. However, during the past year, the question of bankruptcy and its relationship to student loans has been discussed thoroughly by policy making officials.

2. Special Characteristics of Students of Podiatric Medicine

(Also true of other professionals in the health fields such as physicians, dentists, and veterinarians.)

According to the information available about collections of student loans, defaults among health professionals seem to be lower than those reported for other categories of students. Few are expected among podiatric medical students because:

- Students of podiatric medicine, as previously indicated, unlike many undergraduate students and vocational student borrowers, have excellent prospects of high income employment following graduation.

- The colleges of podiatric medicine, by establishing a broad program of student financial counseling and education (including courses in business management and professional practice which focus on providing the knowledge and skills needed in credit and money management), will provide students with the support and cooperation they will need in handling their financial problems.
- The podiatric medical community, through its members and organizations, could be called upon to enforce responsible behavior in regard to loan obligations as part of the code of professional ethics to which these professional-degree students will be subject when they do go into practice.

3. Using the Service Option as a Means of Repayment of Loans

Most people who try to avoid the payment of their just debts through bankruptcy proceedings do so because they see no alternative, not only immediately but also for the long-term future. Bankruptcy is usually a procedure of last resort. Debtors don't enter into it lightly if they have other courses of action available. Courts don't discharge debtors easily in bankruptcies if there are any possibilities of payment. Some cases drag on for years as the court-appointed officials search for potential earnings or assets to meet the claims of the creditors.

For podiatrists and other health professionals, however, the use of the "service option" as a means of repaying loans could provide a form of "calamity insurance" for many student borrowers who feel themselves over-extended after their graduation. The present arrangement, applicable at the option of the Secretary of Health, Education, and Welfare, makes it possible for podiatrists (and members of other health professions) who were "needy" when they were students to ask the Secretary to pay off 85 percent of their loans in return for service in a designated shortage area for three consecutive years.

By September 1975, the Secretary of the Department of Health, Education, and Welfare had entered into service agreements with 96 professional persons with degrees in podiatric medicine--nearly 14 percent of the 706 persons in the health professions who had entered into such agreements, an unexpectedly high proportion of the total for podiatric medicine.

Appendix E

Default as a Problem for the Proposed Deferred Cost of Education Plan

Throughout the study one question asked repeatedly was: "What about the problem of students who default in repayment of their education loans?" The question is particularly significant in view of the plan proposed in this report involving loans of large amounts ($30,000 to $50,000) which would be guaranteed by the Federal Government. The study staff, therefore, addressed this specific question in some detail in this Appendix.

Default by students on the repayment of loans under the proposed plan is not expected to be a serious constraint to implementing the plan for a number of reasons:

1) Loans under the plan proposed in this report would be made only to a select group of students -- those enrolled in a doctor of podiatric medicine degree program.

2) The plan provides an option for graduating podiatrists to have their loans repaid by the government in return for professional practice in underserved areas. Upon application for the first loan the student would sign a contract with the government to provide such service. That contract could be enforced in the event a graduate elected to repay the loan in cash and then failed to do so.

3) The average earnings of podiatrists are high enough to enable graduates to repay loans even of very large amounts given a period of ten or fifteen years in private practice.

4) The colleges would be willing to support actions that might be taken by state and Federal Government agencies to restrict relicensure of podiatrists who fail to keep up the payments and eventually to repay their education loans.

5) The colleges would be willing to support sanctions by the profession for failure to repay education loans as an unethical act.

6) The colleges would expand substantially their programs of financial counseling and instruction in practice management.

7) The high rate of default under the federally-insured Guaranteed Student Loan (GSL) Program bears practically no relationship to the experience expected under the plan proposed in this report because the GSLP involves a broad group of student borrowers, lenders, and educational institutions with a wide range of entirely different characteristics. The procedure for administration of the proposed plan is also substantially different from that of the Guaranteed Student Loan Program.

Nevertheless, a great amount of concern is being felt and widespread public attention is being given to the rising number of defaults under the Guaranteed Student Loan Program and other education loan programs supported by the government. In preparing the proposed deferred cost of education plan, therefore, the staff looked into the extent of and the reasons for default under existing education loan programs to gain a better understanding of the probable implications of default under the plan proposed in this report.

The poor record of collection under existing education loan programs is not only a problem of growing concern but also one that will have to be dealt with if such programs are to provide a viable method for students to finance their education in the future. The issue has been confused and misunderstood, however, and there has been a tendency to overstate the default problem.

Among the various education loan programs, terms such as "default" and "delinquency" are not really comparable; the statistics are not comparable either. The rate of default or delinquency in the different loan programs can be determined only according to the definition specified for those terms. For example, a loan may be considered in default, or a borrower delinquent, under the various programs when:

- the borrower fails to make a scheduled payment when due;
- it is clear that the borrower will never fully repay the loan;
- the borrower is delinquent in making payments for a specified period of time;
- the borrower obtains a court ruling of bankruptcy; or
- a claim is filed calling for repayment by the guarantor.

Furthermore, studies on the default problem have led many experts on education loan programs to suggest that the poor collection record on education loans may be due less to the unwillingness of the borrowers to repay than to the quality of handling the loan origination and collection process (including the ability of the lender to keep track of the borrower during the grace, deferment, and repayment period, normally for most borrowers a highly mobile time).

Guaranteed Student Loan (GSL) Program

When federal legislation was e[illegible]d in 1965 to create the Guaranteed Student Loan Program, few pe[illegible]ealized just how important it would be to students or how extensively it would be used by them to finance their education. By the end of fiscal year 1975, eight million loans, totaling $8.3 billion, had been made to students under the program. In the past year alone one million students borrowed in the aggregate $1.5 billion of GSL funds, contrasted with 1966 when only five percent as many students borrowed under the program.

Over the years, as the costs of education climbed, the amounts of money students needed to borrow grew also. Periodic revisions of the GSL Program were made to increase the amounts of loan funds available. At present, students, educators, and government officials are again concerned that the amounts (as limited by loan ceilings and unwillingness of lending institutions to make loans to students) are inadequate for today's needs of students. Legislators are now working on amendments to the Higher Education Act to increase the amounts students can borrow under the GSL Program to finance their education.

All the concerns and the efforts being made are handicapped by a major problem which threatens the continued development of the GSL Program: default by students on repayment of their education loans is costing the government, as guarantor, increasingly larger amounts each year as shown in the following table on the Federal Insured Student Loan Program:

Table 40

Claims Paid by the Federal Government On Defaulted Loans Under the Federal Insured Student Loan (FISL) Program*

Fiscal Year	Claims Paid Annually		Cumulative Default Ratio		
	Number (thousands)	Amount (millions)	Total Matured Loan Volume (millions)	Total Amount of Claims Paid (millions)	Percentage
1968 through 1971	9.8	$ 7.8	$ 104	$ 7.8	7.5%
1972	17.4	16.0	255	23.8	9.3
1973	32.7	31.4	552	55.2	10.0
1974	56.3	55.2	952	110.4	11.6
1975	67.8	71.7	1,481	182.1	12.3

Source: Office of Guaranteed Student Loans, Office of Education, Department of Health, Education, and Welfare.

* Does not include federal reinsurance claims paid on guarantee agency loans or claims paid for reasons of bankruptcy, death, and disability.

Speculation, most notably by the General Accounting Office (GAO), about the eventual rate of default on education loans has received widespread public attention and many people have become alarmed and critical of the students, the education institutions, and the government agencies responsible for administering the programs. In its recent report to Congress, the GAO estimated that 24 percent of the students who had borrowed under the Guaranteed Student Loan Program, including the Federal Insured Student Loans, would ultimately default.

Although the default rate is higher than had been expected, the actual cost of repaying defaulted loans as a percentage of total loans made may be substantially less than indicated by early statistics because:

1) Defaults tend to surface early. Bad loans show up in the statistics quickly inasmuch as 80 to 90 percent of those who default never make their first payment.

2) Post-claim collection efforts will result in reducing the cost of default payments by the Government.

After several years of effort, *state guarantee agencies* and the U.S. Office of Education have not yet been able to obtain any substantial amount of hard data including statistical analysis of the causes or classes of default. However, various preliminary studies involving sampling of default cases have shown that:

1) Defaults are highly concentrated in a few states, lenders, and schools; approximately one-half of the default claims paid by the Federal Government involved students of no more than 100 institutions.

2) A high correlation exists between dropout rates and default rates.

3) There is an inverse correlation between family income of the borrower and the default rate. Borrowers from families with incomes below $6,000 represent a disproportionately higher share of defaults.

4) The rate of default is much lower among students who go into the more highly paid professions, such as business, law, and the health professions, when compared with all student borrowers.

5) Default rates are much higher for borrowers who are divorced, separated, or widowed.

6) Students in proprietary schools account for a disproportionately high percentage of defaults.

7) High rates of unemployment tend to increase the rate of default.

Default under the GSL Program is determined to have occurred when the lender, after exercising "due diligence" in its collection efforts, files a claim with the Federal Government for repayment of a loan to a student who has failed to make a scheduled loan payment after a period of 120 days. Repayments are also made by the government for death, disability, bankruptcy, or cancellation for services rendered.

All these reasons are commonly lumped together in quoting the statistics on the rate of default. Even after a loan is considered in default because it is delinquent for 120 days and a claim for payment is filed with the government, the government continues its collection efforts. Amounts eventually collected reduce the cost of the government as guarantor.

For the most part, available statistics are related to the delinquent status of loan payments or claims paid rather than precisely to defaults. The eventual and final determination of whether a loan would be defaulted would come only after many years. For example, only when a borrower dies after failing to repay a loan that was due to be repaid in full is it certain that the borrower has defaulted on the repayment of the loan. In the meantime, the loans are more properly classified as past due with the borrowers delinquent in their payments.

National Direct Student Loan (NDSL) Program

There is no specific definition of default under this program because no mechanism exists for guarantee or for claims for repayment. Outstanding loans are merely carried on the record until they are eventually repaid. The records indicate the status of loan payments as either on schedule or past due. Loans on which one or more payments are past due more than 120 days are classed as "delinquent."

In an effort to compare its statistics with those of the Guaranteed Student Loan Program, the Office of Education has attempted to calculate a "potential default rate," as shown in the following table:

Table 41

Estimated Potential Default Rate Under the
National Direct Student Loan Program

as of June 30, 1974

Item	Amount
A. Total amount lent	$3,293,000,000
B. Less amount of those loans not yet in repayment status	1,033,000,000
C. Total matured loans	$2,260,000,000
D. Principal amount of loans with payments past due more than 120 days	$ 333,000,000
E. Estimated potential default rate (Line D divided by line C)	14.7%

Source: Division of Student Support and Special Support Programs, U.S. Office of Education, December 12, 1975.

Obviously, this method of estimating a potential default rate is not precise. A reasonable expectation is that at least some of the loans in delinquent status will be collected, so the estimated default rate of 14.7 percent is probably overstated.

Nevertheless, loan collections under the NDSL Program have been a significant problem. As of June 30, 1974, out of the $3,293 million loaned, $1,142 million had become due and collectible. Of that amount $988 million had been collected or cancelled (for service, bankruptcy, death, and disability); the repayment of $25 million had been deferred; and $130 million were past due, $116 million of which had been past due for more than 120 days, representing about 10.2 percent of the total amount due, collected, cancelled, or collectible. Program officials refer to this figure as the rate of delinquency under the NDSL Program.

After examining the problems of various existing loan programs the study staff and the panel believe that the plan proposed in this report can be expected to achieve a much better record of collections and to avoid many of the problems experienced in other loan programs. The plan has been designed with those objectives in mind.

Appendix F

Financial Counseling of Students

Questions were raised continually during the study on how well students of podiatric medicine, once they had graduated and gone into practice, would be able to handle large debt repayments of the size contemplated, for example, by the proposed plan for deferring the cost of education.

The staff is well aware of the possibility that even if necessary elements of the proposed plan were enacted, Congress might fail to appropriate enough money in some future year to pay for the service in underserved areas performed by all students who borrow and wish to serve; and also that the service opportunity at the option of the borrower might not be included in the program as enacted.

In these circumstances, a substantial number of new practitioners might find themselves with education debts of $30,000 to $40,000 to be paid out of current earnings. In addition, in order to go into practice, a new practitioner might have to borrow another $20,000 to set up an office and to provide working capital until the patient care services were well under way.

One premise assumed in this study is that if loan funds were available, students would be able to cover a large part of the cost of their education after graduation and residency because of their potential for future high earnings as doctors of podiatric medicine.

A recent survey of earnings by doctors of podiatric medicine shows, for example, that in 1973 the net annual income of podiatrists in their first three years of practice averaged more than $25,000. Podiatrists in their tenth to fifteenth years of practice averaged more than $42,000 annually as shown in the table that follows:

Table 42

Survey of Average Annual Earnings of Podiatrists

Calendar Year 1973

Years in Practice	Number of Respondents	Average Gross Income	Average Net Income Before Taxes
0 to 3	46	$46,891	$25,585
3 to 6	51	62,696	34,686
6 to 10	52	66,625	35,279
10 to 15	61	73,807	42,661
15 to 20	88	58,439	34,972
20 to 30	171	61,315	35,866
Over 30	130	49,200	31,148

Source: Survey of podiatrists attending the regional meetings of the American Podiatry Association, spring 1974.

Note: Although the American Podiatry Association acknowledges and supports the results of the survey, the Association recognizes the need for a more comprehensive, scientifically controlled survey of the incomes and other characteristics of practicing podiatrists.

High annual earnings by podiatrists are expected to continue. Nevertheless, the handling of large debts by new young practitioners will always require careful planning and good management knowhow. This is especially the case when the characteristics of new young practitioners are noted; that is, they are likely to be in their late twenties, recently married or soon to be married, with a child or two born or soon to be born, owning or in need of a family residence in the community in which practice is being established and which will be carrying a substantial mortgage with an interest and amortization charge of $5,000 to $8,000 a year.

Against this background it is clear that student counseling and financial education for young practitioners is likely to play a much more important role in the future than in the past and will no doubt be a significant element in assuring the success of a large loan program. Recognizing these needs, the colleges of podiatric medicine have begun a series of financial counseling programs for students, designed to prepare them for the types of financial responsibilities they are likely to face after graduation and residency. Among the activities already under way at some of the colleges are the following:

- Personal financial counseling during the four years of podiatric medical college attendance; these concentrate mainly on students who are candidates for and recipients of funds under various loan programs.
- Courses or seminars on "practice" management, dealing with the financial considerations that have to be examined when going into and conducting a practice.
- Better follow-up on loan collection procedures so as to keep in touch with students who have graduated and to avoid allowing them to become delinquent on education loans because of inadequate program administration.

These activities are expected to be expanded substantially as the volume of loans grows in the years immediately ahead. Many persons believe that the responsibility for taking additional steps to provide intensive counseling falls upon college officials. These officials are in touch with the students and they know about the financial responsibilities students are undertaking or will have undertaken by the time they go into practice. They are in a position to influence the students' thinking and attitudes during their education years and to do so from a professional as well as a personal point of view.

If the new loan plan proposed in this report is adopted, it is assumed that each of the colleges of podiatric medicine would proceed with plans to expand its counseling activities into a comprehensive program designed to:

1) Help the students to determine for themselves before beginning the DPM program whether the amount of time and money required to earn the degree will be a sound investment for the future. Expertise on practice in the profession along with counseling on the financial requirements of the education program would be provided.

2) Help the students plan an overall long-term financial program based on needs during college attendance as well as probable financial resource needs and earning capacity after graduation.

3) Provide counseling which will enable students to make wise decisions during the education period with respect to any financial emergencies or difficulties which may arise.

4) Help students make and execute feasible plans for meeting the financial obligations to be incurred in obtaining their professional education.

5) Help the students develop and carry out a thoroughly prepared plan for professional practice.

Perhaps the most important time for counseling in education loan programs comes before the student is admitted to college or, in any event, before the first loan is granted. Alan Maynard, Director of Financial Aid at Brown University noted* in this connection that:

> ..."due diligence" begins at the time that the loan is granted and not at a later date when that same loan comes into collection status. Such "due diligence" requires that ... borrowers understand their commitment to repay and the possible consequences that that commitment will have on their future lives. Any diminution of the effects of debt on a borrower's future for any reason deemed as necessary will surely "come home to roost" in the form of broken promises, delinquencies, and defaults. This is not what we want or expect from the loan program, but it is surely what we'll get and deserve if we fail to take the necessary precautions at the inception of the loan offer.

Loan counseling should be emphasized, therefore, at the beginning of the borrowing period with the objective of producing borrowers who:

- understand what borrowing means in terms of real dollars and the effects of loan repayments on future life-styles; and

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* In an address before the 1975 Workshop on Student Loan Administration conducted by the National Association of College and University Business Officers.

- have full knowledge about and accept the repayment responsibilities contained in the loan agreement.

To achieve these objectives, the basic loan counseling program for students at colleges of podiatric medicine might consist of four parts: (1) preparation and distribution of a fact sheet describing the loan program, (2) an entrance interview, (3) an annual review, and (4) an exit interview when the borrower leaves college. Further details on each of these proposed parts are in table 43 that follows:

Table 43

Elements of a Comprehensive
Financial Counseling Program

The Fact Sheet

A general statement should describe the loan program and the terms under which the loan is made. Such a statement should include: the amount of money that can be borrowed; the interest rate; deferment and cancellation provisions; grace period; repayment terms, including penalties, length of repayment period, etc.; and source of loan funds. The fact sheet should accompany every loan offer made to students to insure their knowing from the beginning what is involved.

The Entrance Interview

This interview should be held at the time students are admitted and before any loans are approved. Its purpose should be to make sure that every student who expects to borrow under the loan program knows exactly what the responsibilities are in regard to the loan contract and is aware of the full consequences of the financial obligations about to be assumed. To the extent possible, the entrance interview should be one-to-one between the financial counselor and the borrower; however, small group interviews for general orientation could be conducted. The entrance interview should cover at least the following:

- General discussion of loan funds available, debt limitation, specific information about average anticipated earnings, probable earnings growth rates, probable non-education borrowing after graduation, percentage of average earnings devoted to installment payments, etc.

- An explanation in detail of the repayment terms.

(continued)

Table 43
(continued - 2)

Elements of a Comprehensive Financial Counseling Program

- An explanation of interest computations; and, because this is an area almost universally misunderstood by borrowers, a comparison of interest computations on other types of loans — automobile, home mortgages, consumer credit, etc.

- Information from each borrower, including:
    - name and permanent address
    - social security number
    - name of nearest relative
    - expected date of graduation
    - outside loans

- Time for students to read the promissory notes they are about to sign (including the truth-in-lending statements) and then to ask any questions.

- Signing all necessary papers. This step would include the agreement to serve in an underserved area if the proposed deferred cost of education plan is enacted. The students should be reminded that notes when signed become binding legal documents for repayment.

- A reminder that each student has an obligation to see the financial counselor before leaving school for any reason.

- A statement signed by students indicating they have received, read, understood, and accepted the responsibilities under the program.

The Annual Review:

Each year prior to approving new loans the financial counselor should review with the borrower the essential information included in the entrance interview, the current financial condition, and standing of the student in the education program. New financial circumstances should be considered in evaluating the borrower's loan program.

(continued)

Table 43
(continued - 3)

Elements of a Comprehensive Financial Counseling Program

Borrowers should be encouraged to seek counseling when necessary between annual reviews to discuss any questions or problems affecting their loans and/or repayment obligations.

Exit Interview:

Each borrower should be required prior to leaving the school to have an exit interview with the financial counselor. During this final interview:

- All loan terms should be discussed, including alternative repayment provisions built into the plan such as the agreement to serve in a shortage area.
- The borrower should decide upon the method of repayment and either prepare an application to serve in a designated underserved area or enter into an appropriate repayment plan.
- The borrower's permanent mailing address should be recorded.

In addition to the basic loan counseling program, colleges of podiatric medicine and the state and national professional associations of podiatrists should give attention in the future to a number of related activities such as:

- establishing continuing education courses for practitioners, including subject matter covering financial management and the management of practice;
- encouraging the preparation and development of a series of publications, books, and guides directed specifically to financial problems facing practicing podiatrists, particularly new members of the profession;

- encouraging the preparation by tax accountants, government officials, lawyers, and business specialists of account books, billing forms, and other office materials which will assist and facilitate the activities of new practitioners;

- organizing cooperative arrangements which will help new practitioners find locally much of the professional and personal assistance, guidance, and advice they need among the people who live and work nearby, preferably in their own communities;

- organizing local seminars, forums, and professional meetings with programs on business economics, taxation, management, typical problems of financing professional practice, etc. These could be combined with programs providing technical and scientific information to the profession.

These are only examples of the kind of attention to financial counseling and backup that the colleges of podiatric medicine and the state associations of podiatrists should provide in the years ahead. To them the well-being of the profession is of utmost significance. In the absence of other agencies and organizations providing the necessary services (and possibly preempting the field to the detriment of the profession), they should welcome the opportunity of providing a wide range of new services to new practitioners.

Appendix G

Survey of Borrowing by Students of Podiatric Medicine

Questions were raised from time to time during the study about the extent and nature of the borrowing already undertaken by students of podiatric medicine, and about the probable future needs of these students for loan funds.

Finding that no data had been assembled on these questions, the study staff asked the financial aid officers at each of the colleges to survey a random sample of students whose number would approximate one-half of the total college enrollment during the 1974-75 academic year. Nearly two-thirds of the students surveyed responded by completing a brief questionnaire.

From an analysis of the data provided on the questionnaire regarding age, sex, marital status, home state, etc., and from interviews with selected students and with financial aid officials, the study staff believes the information provided by the survey is representative of the entire student body at each college. Additional student responses would not have altered significantly the major findings and conclusions drawn from the survey.

The findings and conclusions were as follows:

1) Thirty-seven percent of the students enrolled had borrowed $3,300 on the average as undergraduates prior to entering podiatric medical college.

2) Seventy-four percent of the students had borrowed on the average more than $2,000 per year for their podiatric medical education (equivalent to $8,000 for four years of study).

3) Seventy-nine percent of the students expected that they would borrow before their podiatric medical education had been completed, and that the aggregate amount borrowed (including amounts mentioned above) would be in excess of $11,000.

4) The $11,000 estimate includes the future borrowing needs of present students. An examination of the questionnaires led the study staff to believe that this estimate was too low.

A summary of the figures is in the table that follows:

Table 44

Borrowing for Education by Students Enrolled
In Doctor of Podiatric Medicine (DPM) Degree Programs

June 1975

School Class	Borrowed for Undergraduate Education	Borrowed for DPM Program To Date	Estimated Further Borrowing To Complete DPM Program	Total
All classes:				
Percentage reporting borrowing	37%	74%	n.a.	79%
Average amount	$3,345	n.a.	n.a.	$11,037
First year:				
Percentage reporting borrowing	38%	67%	69%	79%
Average amount	$3,569	$2,668	$8,671	$10,177
Second year:				
Percentage reporting borrowing	39%	78%	73%	80%
Average amount	$3,297	$4,317	$6,262	$12,011
Third year:				
Percentage reporting borrowing	31%	84%	78%	87%
Average amount	$2,836	$6,777	$3,701	$10,569
Fourth year:				
Percentage reporting borrowing	34%	69%	24%	73%
Average amount	$3,084	$8,542	$3,313	$10,551

Source: Student survey conducted by the colleges of podiatric medicine for the Academy for Educational Development, June 1975.

Note: Percentages and averages derived from 548 questionnaire responses (representing 30 percent of total enrollment).

The survey also showed that:

1) Students said that they would have borrowed more if more funds had been available under the Health Professions Loan Program or if the maximum loan ceiling had been higher in the Guaranteed Student Loan Program.

2) Many students were concerned about the future availability of loan funds needed to complete their education.

3) Many students would be prepared (if costs were to rise) to borrow whatever amounts were required to finish their education (if funds were available) because:

   - There are no alternatives; neither they nor their families could pay all of the costs of education out of current income or savings.

   - Their capacity to repay their student loans out of future income looks good, particularly if the repayment period could be spread out over a long period of time, or if repayment-by-service options were available.

4) As a group the students enrolled in podiatric medicine have educational debts totaling an aggregate of $9.4 million for both undergraduate and professional education, of which:

   - $7.3 million or 77 percent came from government-sponsored programs;

   - $7.4 million or 78 percent was for professional education (of which the largest portion came from the Guaranteed Student Loan Program, and a substantially smaller proportion from the Health Professions Loan Program).

A summary of the figures is in the table that follows:

Table 45

Total Education Debt of Podiatric Medical Students By Source of Loan Funds

June 1975

Sources of Loan Funds	Total Debt		Undergraduate Education Debt		Professional Education Debt	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Government programs						
Guaranteed Student Loan program	$5,635,291	60%	$1,203,699	59%	$4,431,592	60%
National Direct Student Loan Program	407,390	4	407,390	20	--	--
Health Professions Loan program	1,212,071	13	--	--	1,212,071	16
Total government programs	$7,254,752	77%	$1,611,089	79%	$5,643,663	76%
Family and friends	1,152,633	12	285,067	14	867,566	12
Personal bank loans	410,210	4	65,440	3	344,770	4
Other, including credit unions, fraternal organizations, colleges, etc.	639,341	7	75,380	4	563,961	8
Total loans	$9,456,936	100%	$2,036,976	100%	$7,419,960	100%

Source: Student survey conducted by the colleges of podiatric medicine for the Academy for Educational Development, June 1975

Note: Figures refer to total education debt only of the students enrolled at the colleges of podiatric medicine in spring 1975; the table does not include education debt of former students and graduates.

The survey also showed that:

1) Students would be willing to go into the National Health Service Corps or into practice in shortage areas if these steps were necessary to repay all or a part of their debt obligations. Student interest in these types of activities increases substantially as the amount of debts outstanding increases.

2) Students were seldom able to estimate accurately the amount of loan funds they will need in the future for purposes of other than educational costs. They were low, for example, in their estimates of the cost of setting up a podiatric medical practice after graduation and residency. The study staff found that these costs run about $20,000 on the average as shown in the table that follows:

Table 46

Cost of Establishing a Practice in Podiatric Medicine As Reported in 1975

Type of Practice	Range	Average Amount
Solo		
Purchased Established Practice	$15,000-$20,000	$16,250
Began New Practice	10,000- 50,000	22,750
Partnership (per individual)	10,000- 30,000	16,250
Group Practice (per individual)	10,000- 18,000	14,250
Other*	none	none
All Types	$10,000-$50,000	$20,200

Source: Telephone survey of doctors of podiatric medicine made by Academy for Educational Development, June 1975. Data covers first five years after graduation and residency.

* Includes those employed by the military services, by hospitals, or by another doctor of podiatric medicine, etc.

The survey also questioned students on their opinions of a deferred cost of education plan as a means of financing all or part of their education expenditures. In response:

- seventy-three percent of the students said they were strongly in favor of the idea;
- two percent of the students said they were against the idea;
- many said that if the plan were enacted it should supplement (not replace or cause to be reduced) the current level of student financial assistance provided by federal and state governments and other programs of public support and subsidy provided by Congress or state legislatures.

A summary of the figures follows:

Table 47

Responses Indicating Reaction
of Podiatric Medical Students to the Concept
of a Deferred Cost of Education Plan

June 1975

Response	Percentage of Total Responses
Strongly favor	73%
Favor	18
Neutral	5
Disfavor	1
Strongly disfavor	1
Unspecified	2

Source: Student survey conducted by the colleges of podiatric medicine for the Academy for Educational Development, June 1975.

The study staff asked student aid officials at the colleges for their views on the need and extent of student borrowing. They said that:

- A substantial number of students are really being pushed at the present time to meet their current financial commitments. These students are greatly in need of new or additional sources of financing.
- Many students are working more hours outside of school to make ends meet than is appropriate for professional students who are already spending 35 or more hours a week in classroom or clinic activities. The amount of outside work undertaken by some students does interfere with their studies.
- Some device will have to be created to make it possible for students to pay for steadily rising tuition charges. Otherwise, the outlook is for a substantial resistance over the next few years to any significant increase in education costs, as well as student inability to finance the tuition required to meet those costs.
- They were concerned about the amount of interest that accumulates over the lifetime of a student loan because it increases so sharply the total cost of professional education. However, they were not able to offer an alternative suggestion.

Appendix H

Legal Issues Involved in Implementing the Proposed Deferred Cost of Education Plan

The contract for the Association's study required the staff to examine the legal issues involved in implementing a new plan for financing podiatric medical education and to be sure that the plan recommended would be legally acceptable.

During the study a number of legal issues were identified with respect to various alternative plans considered. The staff found, however, that the plan proposed in this report could be implemented largely without concern about any new legal problems because the various features of the plan were not new; that is, each feature was similar to provisions in various existing programs. For example:

- The mechanics of the federal guarantee of loans provided under the proposed plan is virtually the same as that provided in the current Guaranteed Student Loan Program.

- Federal repayment of loans in return for service by health professionals in underserved areas is no different in concept from the provisions in current law for agreements made by students with the Secretary of Health, Education, and Welfare to serve in shortage areas.

- The loan agreement and administrative forms would be similar to those commonly used by lenders in other types of loan programs.

- The procedure for establishing the guarantee fund proposed in the alternative plans would be the same as that established several years ago by United Student Aid Funds and several state guarantee agencies.

Questions about the effect of legal interest rates and income tax laws under the proposed plan were also examined in some detail by the study staff. The findings of the staff with respect to those questions follow:

1. Would the proposed rate of interest be considered usurious under state lending laws?

The answer is "no," inasmuch as the proposed plan would involve a regulated interest rate. Although usury statutes vary widely among the states, they are generally separable from the statutes governing regulated interest rates and refer to interest rates which are substantially higher than "regulated interest rates" for the various classes of loans. For example, the Uniform Consumer Credit Code, which has been adopted by several of the states, specifies that an interest rate of 45 percent would be considered extortionate. The rate of interest under the plan proposed in this report is substantially below the rates considered usurious or extortionate.

2. Would the rate of interest and other loan terms of the proposed plan be permitted under state lending laws and regulations?

Despite the extensive variety of lending laws and regulations among the states and with regard to numerous classes of loans and lenders, the answer to this question is probably "yes" because:

- Federal legislation would be required to implement the proposed plan. The law created by that legislation would specify the interest rate and other loan terms. As a result, state regulating agencies would tend to revise or waive lending regulations that might otherwise prohibit lending institutions from making loans as proposed by the plan. This has been the case with other federal loan programs, such as FHA insured mortgage loans. In New York, for example, banks are permitted to make FHA loans at a rate of interest in excess of the regulated rate for conventional mortgage loans.

- Loan funds could be provided, if necessary, by lending institutions in only those five states in which the colleges are located, thereby eliminating concern about the lending laws in the other states. Lending institutions in the five states could make loans to students from other states who were attending the college in the state in which the lending institution is located.

- An independent organization such as United Student Aid Funds, Inc. could organize a group of lending institutions in a state or states with lending regulations which would permit loans to be made according to the interest rates and other loan terms of the proposed plan. The state or states in which the lending institution was operating would not have to be the same state as that in which the college was located.

  United Student Aid Funds has, in fact, used this method in the administration of its Graduate and Professional School Student Loan Program. In that program students with the approval of the financial aid officer of their college, apply for loans to USA Funds, Inc. which in turn forwards the loan application to the lending institution. Students from all over the country have participated in the USA Funds, Inc. program which uses competitive rates of interest to ensure the availability of loan funds.

- The rate of interest may not turn out to be significantly higher than other classes of loans (such as mortgage loans) which lending institutions are making currently.

The availability of an adequate amount of loan capital depends on the provision of a rate of interest (and other loan terms) which would make the loans competitive with other investment opportunities of the lender. Based on the less than wholly satisfactory experience under the Guaranteed Student Loan Program (GSLP) the study staff assumed that the rate would have to be higher than in that program. This may not be the case, because lenders' dissatisfaction with the GSLP, attributed primarily to low rates of interest, has been due equally, if not more so, to other such factors as: (1) the nuisance of handling a large volume of loans of small amounts; (2) the administrative cost of collecting small amounts over a long period of time; (3) the administrative red tape involved in collecting on defaults.

The rate of interest for any loan depends upon the cost of money plus administrative costs. If the administrative costs could be reduced, the rate of interest could be lowered also.

The study staff believes that state lending laws are not likely to restrict the operation of the proposed plan. However, if the case proves to be otherwise, the states might have to establish regulations that would apply to and govern the type of loans created by the proposed plan. At the present time, state statutes govern various classes of loans (see example for Pennsylvania in Table 48 on the next page). However, none of these statutes have the precise characteristics of nor are they appropriate for the proposed education loans.

Table 48

Classes of Loans Governed by Pennsylvania Statutes

Type of Loan	Terms
Small Loans:	Maximum interest 3% per month on the first $150, 2% to $300, 1% to $600. Maximum amount $600. Maximum term 24 months.
Consumer Discount Loan Act:	Maximum interest 9 1/2% discount per year to 36 months, but 6% discount per year for the months over 36; plus $1 fee per $50, maximum $15. Maximum loan $3,500. Maximum term 48 1/2 months. Minimum charge for a 12-month loan, $25 or less, $3; over $25, $6; these minimums are per year pro rata.
Bank Installment Loans:	Maximum interest 6% discount per year. Maximum loan $5,000. Maximum term 60 1/2 months. Under the Bank Revolving Loan 1% per month plus charge for each check, and must become due within 5 years from the date the last loan was made.
Auto Finance:	Maximum interest Class 1 (new) 6% add-on; Class 2 (under 2 years) 9%; Class 3 (over 2 years) 12%; Class 4 (new over $10,000 commercial) 7 1/2%. Minimum charge $10.
Other Goods:	Maximum interest 8% add-on per year. No maximum loan. No maximum term. Lender must state charge as not more than 15% interest, which is a statement of fact; except where minimum charge intervenes, this is ignored. The minimum charge is 70¢ per month which may always be applied for 6 months making the minimum always at least $4.20.
Improvement Loans:	Maximum interest add-on 8% per year. No maximum loan. Maximum term 84 months. Minimum charge $12. Not applicable if less than $300.
Revolving Loan Credit:	Maximum interest 2% per month. Maximum loan $3,500.
Revolving Charge Credit:	Maximum interest 1 1/4% per month, minimum 70¢.
Other:	Legal interest rate is 6%. By contract to $35,000 or a business loan to $10,000. For mortgages of $50,000 or less on residential property, two units or less, the maximum rate is based on the Monthly Index of Long Term United States Government Bond Yields for the second preceding calendar month, plus 2 1/2% (9 1/4% for February 1975). Corporations are not subject to special rates. Criminal usury involves rates of 25% or more.

Source: Cost of Personal Borrowing in the United States, 1975 edition, Financial Publishing Company, Boston, 1975.

A new class of loan would probably be needed for education, not so much to establish a legal rate of interest (in most states the rate of interest allowed for various classes of loans is high enough to permit loans to be made at the rates proposed in this report), but to establish a maximum amount of loan high enough and a repayment term long enough to provide specifically for education loans of up to $40,000 or $50,000 and repayment over 15 to 20 years after graduation if the service option is not available.

Only Delaware, Illinois, and New York have specific statutes on education loans. Although the statutory rate of interest in those states would be adequate for the proposed plan, the maximum amount of loan and maximum repayment term would not, as shown in the following table:

Table 49

Characteristics of Statutes Covering Education Loans in Three States

State	Maximum Annual Percentage Interest Rate	Maximum Loan	Maximum Term
Delaware	up to 17.78%	None specified	3 years after last advance
Illinois	up to 12.91%	$15,000	121 months
New York	12%	$20,000	85 months

Source: Cost of Personal Borrowing in the United States, 1975 edition, Financial Publishing Company, Boston, 1975.

Furthermore, the New York statute limits the loans to students with family income of $15,000 or more.

Other states without specific statutes for education loans might permit them to be made under statutes for other classes of loans such as "small loans" and "personal loans." However, the bank regulatory agencies could be expected to object if banks -- in order to satisfy the interest rate, loan amount, and repayment terms required under the proposed plan -- made education loans under statutes established for industrial loans, auto finance, mortgage loans, consumer credit, etc.

3. Would the cost of borrowing for education be deductible for income tax purposes?

Graduates who repaid loans in cash would be allowed to deduct for tax purposes in the year of repayment only the amount of interest accruing for that year.

Interest accruing during the school years, whether paid as it accrued or added to the principal amount of the loans, would be deductible only in the year of accrual and would not be likely to offer a student any substantial tax advantage because of the relatively low income in the school years. Neither interest added to the principal amount nor the principal amount borrowed for education costs would be deductible in later years when the principal amount is repaid. Congress could amend current tax regulations to allow one or both of these items to be deductible in future years, however, if this step were deemed necessary as an incentive or to relieve the education debt burden of future graduates.

4. Would repayment of loans by the government for graduates in return for their entering into practice in underserved areas be considered as taxable income to those graduates?

"Yes," under current tax regulations. However, Congress could provide an exception to the regulations for these graduates to give them an additional incentive by relieving a substantial tax burden.

Two sections of the Internal Revenue Code (Sections 61 and 117) enter into the rulings by the Internal Revenue Service on this question. Section 61 provides that cancellation or forgiveness of debt is considered taxable income to the borrower. Section 117 permits scholarship funds to be excluded from taxable income provided there is no quid pro quo such as an agreement to provide future services.

However, scholarships for participants in the Armed Forces Health Professions Scholarship Program were excluded from taxable income by Public Law 93-483 enacted by Congress in 1973. Subsequently the Internal Revenue Service extended the exclusion also to 1974 and 1975 participants in the Public Health and National Health Service Corps Scholarship Training Program.

With respect to funds advanced to medical students as a loan, to be subsequently repaid by the government in return for practice in a shortage area, the Internal Revenue Service ruled that this kind of repayment is taxable income. The government's position was spelled out in Revenue Ruling 73-256 as follows:

> State Medical Education Loan Scholarship Program. Amounts advanced to a medical student under a

State's Medical Education Loan Scholarship Program that are cancelled upon fulfillment of a condition to practice in a rural area of the State are includible in the recipient's gross income in each taxable year to the extent that repayment of a portion of the loan is forgiven.

Advice has been requested whether amounts received by medical students under a State's Medical Education Loan Scholarship Program are scholarships within the meaning of section 117 of the Internal Revenue Code of 1954 under the circumstances described below.

In order to increase the number of doctors in its rural areas, a State advances to its qualified residents, amounts not in excess of $10,000, to aid such residents in attending medical schools. The tuition and other fees are paid from these amounts directly to the particular school selected by the recipients. Any remaining amounts are paid directly to the students to help them meet their other expenses.

The student and the board appointed to administer the program enter into an agreement which includes a promise by the recipient to repay the amounts in five annual installments commencing one year after the completion of his medical education. The agreement further provides that for each year the recipient practices medicine in a rural area of the State, the installment due that year is to be cancelled. Therefore, by fulfilling his promise to practice five years in a rural area, the recipient is relieved of any obligation to repay the amounts advanced to him. If, for any reason, other than death, the recipient is unable to commence or continue his practice in the designated community, he is required to repay the outstanding balance of the amounts. The repayment requirements are to insure that the program accomplishes its aim of providing doctors for the rural areas of the State.

Section 61 of the Code provides that unless otherwise excluded by law, gross income means all income from whatever source derived including, but not limited to, income from discharge of indebtedness.

Accordingly, in the instant case, the amounts received from a State under its Medical Education Loan Scholarship Program are not excludible from a recipient's gross income under the provisions of

> section 117(a) of the Code, but are includible in his gross income under section 61 of the Code in each taxable year to the extent that repayment of a portion of the loan is no longer required. For example, if a recipient, after receiving a total of $10,000 while attending medical school, practices medicine for five years in the rural areas of the State and 1/5 of the $10,000, or $2,000, is cancelled for each of the five years, then $2,000 is includible in his gross income for each of those years.

Ruling 74-540 by the Internal Revenue Service subsequently extended the decision quoted above to other types of loan programs involving repayment or forgiveness by the government.

Podiatrists and other health care professionals who set up practice in underserved areas may have to forego for some years the higher earnings that are possible from practice in more affluent areas. While the tax on their lower earnings would be less, the tax incurred on the amount of loan repayment could be a major financial burden to the new practitioner in view of the large amounts of borrowing anticipated under the plan. For example, if the earnings from fees from practice in an underserved area were $18,000 for one year and the amount of loan repayment for that year was $12,000, the income tax due on the amount repaid by the government might be $4,000 or $5,000. This amount, in addition to the usual taxes on earned income, might be more of a charge against earnings than a new practitioner could stand.

It was with this problem in mind that Representative William Armstrong (R-Colorado) introduced HR 6547 into the 94th Congress, First Session, on May 1, 1975. This bill was designed to amend the Internal Revenue Code to "exclude from gross income the amount of certain cancellations of indebtedness under student loan programs." Specifically mentioned in the bill were situations in which all or a part of the indebtedness of an individual incurred while a student was "discharged if the individual worked for a certain period of time in certain professions or certain geographical areas or for certain classes of employers."

The study staff believes that the language of the bill if enacted would be broad enough to cover students of podiatric medicine who provide service in underserved areas under the terms of the Deferred Cost of Education Plan proposed in this report.

Appendix I

Background on the Podiatry Profession and the Study for the American Association of Colleges of Podiatric Medicine

Doctors of podiatric medicine, even more than practitioners in other health professions, are in short supply in the United States. Podiatric medicine is the smallest of the major health professions, with only some 7,000 podiatrists currently practicing in the entire nation, less than half as many as are needed based on an estimated total demand of about 15,000 podiatrists. The current capacity of the five* existing colleges to educate podiatrists is not adequate to meet present and future needs (350 Doctor of Podiatric Medicine degrees were awarded in 1975). Moreover, the average age of practicing podiatrists (65 percent are 45 years of age or older) is higher than in most other health professions; the current rate of replacement is not adequate even to maintain present manpower to population ratios. At the same time the demand for podiatric services is growing rapidly because of:

- the increasing demand for all forms of medical care;
- increasing public awareness of podiatric medical services and the importance of foot health care;
- increasing significance of the role of podiatrists in preventive and diagnostic medicine;
- a growing realization of the importance of keeping older people ambulatory, coupled with the steady increase in the number of older people within the population;
- the increased likelihood of a national health insurance program (all of the current proposals make provisions for podiatric medical care); and
- greater access to podiatric medical care through insurance and state and federal health programs.

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* The sixth (public) school at Stony Brook, New York opened in the fall of 1975. Due to state budget constraints, however, the Governor issued an administrative order banning the matriculation of students already admitted. The matter was taken to the courts where litigation continues at the time this report was prepared. The future of the school at Stony Brook is uncertain.

The five private colleges of podiatric medicine currently obtain almost half of their operating revenues from tuition and fees. Only two of them receive direct state support and in both cases the amounts involved constitute less than 20 percent of their total revenues.

Federal aid to the colleges of podiatric medicine (based on a capitation contribution authorized by Congress for health manpower) is relatively small. Moreover, the last act authorizing federal funds for this purpose expired on June 30, 1974; new legislation has not yet been enacted. In 1973, the colleges had to sue the Federal Government in order to obtain all of their capitation funds because half of the funds appropriated by Congress were impounded by the President.

It is apparent that unless the five private colleges devise new means of financing their operations, some must consider closing and others, in order to survive, will most certainly have to reduce the quality of education they provide. At best, the outlook for survival is uncertain. In fact, in recent years the Federal Government has made substantial grants to help alleviate the financial distress of several of the five colleges.

Some time ago the American Association of Colleges of Podiatric Medicine began to consider the concept of a deferred cost of education plan whereby students of podiatric medicine could provide a much larger proportion of the funds required than in the past for their training -- not during the period of their professional study but, instead, after they had graduated and were established in practice. The Association felt that such a plan, when combined with the traditional methods of financing being employed, could meet all of the education costs of the podiatric medical colleges.

The concept of deferred tuition to cover education costs is not a new one. Variations of this idea have been proposed, examined, and reexamined over the past 15 years. As perceived by the Association, however, the plan would differ from other programs that have been proposed or put into operation in two ways:

1) The plan would provide for the payment of the entire real cost of the education provided by the colleges of podiatric medicine by deferring the entire balance not covered by federal, state and private contributions, investment income, fees for patient care, research funds, and reasonable charges for tuition.

2) The plan would include all the educational institutions involved in the profession.

An additional benefit of the plan would be its potential applicability to education programs of other health professions. If the colleges of podiatric medicine could implement the plan as a pilot operation, it might serve as a prototype for funding the professional education of other groups whose graduates have potential high professional earnings.

In March 1975, the Association asked the Academy for Educational Development (a nonprofit corporation specializing in education planning, report preparation, and action plan development) to evaluate and develop the idea further and to turn the concept into an action program.

In the request for this study and for the development of an action program, the Executive Director of the Association said:

> We believe that this study is critically needed because the financing of professional health education in general and professional podiatric education in particular is being severely challenged on all sides. Today the colleges of podiatric medicine are reporting depleted reserves, increased debts, deferred payables, and growing operating deficits. Their financing situation is critical, new approaches are clearly called for, something must be done to undergird the financing of these colleges and to assure their viability in the future.

Funds for the study and the preparation of the report were provided to the American Association of Colleges of Podiatric Medicine by the Bureau of Health Manpower, Health Resources Administration of the Public Health Service, Department of Health, Education, and Welfare. The Academy for Educational Development was appointed as technical and professional subcontractor.

The procedures following during the study are outlined in Appendix J.

In November 1975, Dr. James Bates, President of the Pennsylvania College of Podiatric Medicine, presented the plans prepared by the Academy to the Subcommittee on Health of the Committee on Labor and Public Welfare, United States Senate, at a hearing on health manpower legislation. In making his presentation Dr. Bates said:

> The funding needs for our colleges are so large that only by increasing capitation support many fold could the revenue shortfall be met. Recognizing the impracticality, if not folly, of such a recommendation, we have looked elsewhere for the needed additional funding. The only other reasonable source available for such substantial sums is students themselves.

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> We have identified five distinct approaches for accomplishing the goal of students paying higher tuitions which are available as revenues to colleges currently but deferring the payment until after they graduate and enter practice. We submit one of these approaches to this Subcommittee as a strong recommendation for inclusion in health manpower legislation now under consideration.
>
> Our proposal simply is that, through federal guarantee of loans from the private sector to students of podiatric medicine, financial problems faced by students are eased while, at the same time, colleges can raise tuition to fund the otherwise unfunded cost of education. This, moreover, is accomplished with virtually no outlay of federal dollars.

Late in November 1975 Dr. David Mathews, the Secretary of Health, Education, and Welfare sent to Congress a draft of a proposed bill to amend the health manpower statutes with respect to commitments for capitation, construction of education facilities, loans to students enrolled in health professions schools, etc. In transmitting the draft of the Administration's bill to Congress, Secretary Mathews said:

> The draft bill would shift the emphasis of federal support from merely increasing enrollments to addressing national specialty and geographic maldistribution problems.

Secretary Mathews then went on to say that:

> The present law authorizes the Department to make capitation grants to schools of medicine, osteopathy, and dentistry (MOD schools), schools of veterinary medicine, optometry, and podiatry (VOP schools), and schools of pharmacy, at a specified rate per enrolled student. As a condition for receiving these grants, recipients are required to increase enrollments and to undertake projects in three of nine specified categories.
>
> The draft bill* would eliminate capitation for schools of pharmacy, because their training programs are predominantly undergraduate in nature, and because specialty and geographic distribution of their graduates have not been shown to be a problem. Further, it would phase out capitation

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* Emphasis supplied by the study staff.

> support for VOP schools.* As with pharmacy, no national shortage has been demonstrated, nor are there substantial specialty and geographic distribution problems with respect to VOP graduates. VOP authorizations would be limited to the following proportions of amounts actually granted for the academic year 1975-1976:

Academic year 1976-77	100%
Academic year 1977-78	65%
Academic year 1978-79	35%
Academic year 1979-80	0

Senator Edward Kennedy introduced the draft of the bill submitted by Secretary Mathews as S2748 of the 94th Congress and said that:

> I am delighted today to introduce the administration's health manpower legislation ... There are, however, certain aspects of the administration proposal which I cannot support.*
>
> These include:
>
> The phaseout of capitation for schools of veterinary medicine, optometry, podiatry, and pharmacy. These schools provide important practitioners for America's health care system.
>
> The Federal Government has a responsibility to continue to provide, in one form or another, support for their training activities.

In December 1975, after a number of conferences with staff members of congressional committees and in response to an inquiry, the American Association of Colleges of Podiatric Medicine advised the Senate Subcommittee that:

> We ask that the government provide a guarantee of loans for students in colleges of podiatric medicine in amounts necessary to cover tuition, fees, and living costs as contained in podiatry's testimony. As a quid pro quo, colleges of podiatric medicine are willing to forego capitation authorization if one of the following is incorporated in the legislation:
>
> 1) An authorized amount of at least $1.5 million annually is contained in that legislation for the purpose of repaying loans for graduates

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* Emphasis supplied by the study staff.

of colleges of podiatric medicine in return for their practicing podiatric medicine in designated underserved areas, provided, however, that such appropriated amounts for loan repayment shall be apportioned as though they were capitation appropriations (subsection (c), p. 71, H.R. 5546, Report No. 94-266). Alternatives to this proviso could be that the amount authorized for loan repayment be made an entitlement or by some other means funding could be made secure from the whims of an Administration.

2) Annually, National Health Service Corps scholarships are made available to students of podiatric medicine in the same ratio to total enrollments of colleges of podiatric medicine that National Health Service Corps scholarships provided to students of medicine, osteopathy and dentistry bear to the total enrollments in schools of medicine, osteopathy, and dentistry.

3) An interest subsidy for such guaranteed loans to students of podiatric medicine is paid by the government to the entity providing the loans, thus reducing the amount of interest accruing for student payment, the amount of interest subsidy being the difference between the rate of interest charged in the loan contract and the prime rate, mechanics for making such determination to be established by regulation. Such interest subsidy shall terminate at the time repayment commences on such loans by graduates of colleges of podiatric medicine.

It should be made clear that capitation is the only health manpower program which colleges of podiatric medicine herein are agreeable to sacrifice in return for guarantee of student loans. Other programs such as construction, special projects, financial distress, start-up costs, and even student aid which are provided for the other VOP professions would be expected to be available to colleges of podiatric medicine in like ways and amounts.

We are hopeful that our proposed concept involving student loans can be incorporated in the Senate's health manpower bill. If it isn't, we appear to have no alternative but to support the provision of HR 5546 which provides capitation for podiatry at $1,100.

Appendix J

Procedure Followed in Conducting the Study for the American Association of Colleges of Podiatric Medicine

In conducting the study on the financing of education in podiatric medicine and in preparing the report on the deferred cost of education plan, the study staff found it was necessary to:

- Determine the extent of the need for new sources of financing for the colleges and the students.
- Seek a means or mechanism whereby students would be able to pay the increased costs of education expected to be involved.
- Focus on the practical problem of how to establish a financing plan that would permit the colleges to continue to operate as viable providers of high quality education and, to the extent they wished, to remain privately operated and independently controlled institutions.
- Take into account, but not be bound by, the experience of seven major national student loan programs established during the past ten to fifteen years by or as a result of federal legislation.

  Although not all of these programs involve students in the health professions, the staff examined their operating results closely in order to determine what could be learned from them and what could be adapted for the plan for podiatric medical students.

- Determine (through a series of interviews and a survey) the opinions and attitudes of students currently enrolled in the colleges of podiatric medicine.

  The staff used student opinion as a leavening agent in the study, recognizing in the process the broad diversity of student interests and personal situations. Although a consensus of views did not emerge from the interviews, the staff believed that student observations were indicative, nevertheless, of directions to be considered.

- Provide in the plan to be proposed adequate support for the three main missions of the colleges of podiatric medicine, which are:
    - education of students to the first professional degree, graduate and undergraduate degrees, as well as continuing education for practitioners;
    - research in the advancement of professional knowledge (a mission that to date has been almost nonexistent due to lack of money);
    - provision of community service to the extent possible with the finances available.

With these several objectives in mind, the study staff gathered as much information as possible about the financial situation of the colleges and the students, now and for the next seven years, analyzed this information, visited each of the five colleges of podiatric medicine a number of times and consulted with numerous educators, researchers, businessmen, and government officials experienced with respect to loans to undergraduate, graduate, and professional level students.

During the course of its activities the Academy's study staff carried on visits, interviews, and meetings with and obtained information from nearly 400 people. Many were visited or interviewed more than once by separate members of the study staff.

Early in its activities, the study staff found that the statistical tabulations at government agencies and at the colleges would not provide the information required. Therefore, the study staff:

- conducted a survey of all of the colleges offering podiatric medical education, designed to provide comparable data (historically, and projected for the next seven years) on the number of students enrolled, the number of faculty, the number of degrees and certificates granted, assets and debts, operating receipts and expenditures, construction expenditures, etc.;

- asked the colleges to survey their students in order to determine the amount of debt obligations students had already incurred and from which sources, and how much debt students expected to incur by the time they graduated and for which purposes;

- made a study of the seven national loan programs that provide government or government-guaranteed loans for students, to determine common factors and experiences and to assemble the various legal documents being used and the rules and regulations that have been established.

The study staff prepared a series of staff papers for and met regularly* with the Project Director (the executive director of the American Association of Colleges of Podiatric Medicine) and with members of the Advisory Panel, to gain input from their experiences and to elicit comments on the material prepared as well as on the direction of the study. Midway during the study the staff prepared a draft of the proposed Deferred Cost of Education Plan. The draft was first circulated for comments to members of the Panel, and then to:

- representatives of government agencies involved in health manpower planning, including those at the Division of Associated Health Professions, Bureau of Health Manpower (Health Resources Administration), the Administrator of the Health Resources Administration, and the Assistant Secretaries for Health and for Planning and Evaluation at the Department of Health, Education, and Welfare;
- staff members of congressional committees concerned with how to solve the problems of health manpower planning and the financing in the future of professional personnel for the health fields;
- organizations and agencies concerned generally with the problems of student loans (such as the American Bankers Association, United Student Aid Funds, Inc., the Student Loan Marketing Association, the College Entrance Examination Board, etc.);
- a number of individuals especially knowledgeable about student loan matters as a result of their previous positions in government agencies or their connections with student loan activities;
- representatives of a number of other health professions concerned with the future need for new financing programs for their students.

This review process resulted in numerous comments and observations, many of which were used to complete details of the plan. The review process also resulted in the development of a number of alternative approaches to achieving the objectives of the plan.

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* Meetings were held with the Project Director in person or by telephone at least once a week, but sometimes daily. Meetings with the Advisory Panel were held on April 15, 1975, August 12, 1975, November 24, 1975, and February 2, 1976.

During the period November 1975 to January 1976 (as the study staff proceeded to prepare the final report in accordance with the terms of the contract with the Health Resources Administration of the Department of Health, Education, and Welfare), the details of the plan were discussed by the Association and the study director with various Federal Government officials.

These discussions provided further input to the study staff's activities but did not change the basic characteristics of the proposals that developed from the study.

In February 1976, a draft of the entire report was reviewed by the Advisory Panel with comments being made for inclusion in the final report.

Throughout the study, the staff had the benefit of the advice and counsel of the program officer at the Health Resources Administration. He attended all the meetings of the Advisory Panel and received copies of staff papers as well as the periodic written progress reports provided for in the contract.

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan

Question	Answer
1. Who could borrow under the plan?	Any student matriculated at a college of podiatric medicine in a program leading to a degree of Doctor of Podiatric Medicine (DPM).
2. Would any students be excluded from the plan?	Yes; graduate students and undergraduate students enrolled in other than the DPM degree program.
3. How much could be borrowed?	A maximum of 100 percent of the cost, rounded to the nearest $100 of tuition and fees, plus an allowance for room, board, and books for each academic term. The cost of borrowing (accumulated interest and other charges) could also be included in the amount borrowed in successive years.
4. How much of the plan would be guaranteed?	One hundred percent of the amount borrowed plus the cost of interest and other charges.
5. How much would the allowance be for books, room, and board?	The amount, fixed by regulation, would be based on the estimated average cost at each college for an unmarried student.
6. Would a determination of financial need be necessary?	Not for this plan.
7. When and where could the borrowing be done?	Loan applications would be initiated at the beginning of each academic term at the student loan office of the college.

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan (continued-2)

Question	Answer
8. Would co-signers or collateral be required?	No.
9. What would be the terms of repayment (either by the government or in cash by the student)?	Three equal installments at the end of the first, second, and third year following graduation with a DPM degree or completion of an approved residency program.
10. What would the interest rate be?	Three percent above the three-months U.S. Treasury bill rate of interest as certified by the Federal Reserve Board on the date of the loan.
11. Where would repayment be made?	At the office of the lender or the agent for the lender.
12. Where would the loan funds come from in the first place?	From insurance companies, banks, pension funds, etc., separately or working through an organization such as the United Student Aid Funds, Inc. or an entity such as the Student Loan Marketing Association which could raise funds in the open market.
13. What would be the maximum debt allowance per student?	The total amount of tuition, room, board, and books for all professional education leading to the DPM degree, plus interest and other borrowing costs.
14. Would there be a grace period?	No. The first annual payment would be due at the end of the first year after graduation or completion of the residency program.

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan
(continued-3)

Question	Answer
15. Would any periods qualify for deferment of loan payments?	No. However, Congress could provide, if it wished, that service in the National Health Service Corps or active duty in the military services would qualify as acceptable service for which the U.S. Government would repay all or a portion of the indebtedness incurred by the student under this program.
16. Would the student have to pay interest and insurance costs as they were incurred?	Yes; however, the student could pay annually and add the cost to the next loan. In effect, then, the charges would be accumulated and become due at the same time as the principal. Alternatively, the government might subsidize interest payments during the school years, making annual payments to the lender if Congress wished.
17. What would be the penalty for failure to pay a loan installment when due?	A fee would be charged for payments not made within ten days of the due date. A second fee would be charged for payments overdue by 30 days. After 90 days of nonpayment a loan would be in default status and the borrower would be charged for collection efforts, court costs, etc.
18. Would the plan allow borrowing for costs incurred during residency or for setting up a professional practice?	No.

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan
(continued-4)

Question	Answer
19. When would the students inform the lender and the government of their decision to serve or not to serve in a shortage area as contracted for in the original agreement? How would this be done?	A form for declaration of intention to serve in a designated shortage area to be provided by the government would be filed by the student at least six months in advance of beginning the assignment and not later than six months after completion of residency requirements, or after graduation if an approved residency program were not undertaken.
20. Would the plan include provisions for forgiveness in cases of extreme financial hardship?	No. This is a contract plan for services. However, Congress could provide forgiveness exceptions if it wished.
21. Would students be guaranteed by the contract with the U.S. Government the option of repaying the education loans incurred under the plan by service in an underserved area?	Yes, according to the plan as proposed; however, Congress could choose to make a smaller commitment on paying for podiatric medical services, in which case the plan would be revised to extend the period for cash repayment by the student.
22. Would scholarship funds be needed in addition to the loan plan?	Probably. The plan does not provide funds beyond the amounts for tuition and fees and an allowance for books, room, and board. The most needy students or those with dependents might not be able to cover other financial needs or forego earnings while in school. Some scholarship funds might be needed, therefore, to meet the national objective of equality of educational opportunity.

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan

(continued-5)

Question	Answer
23. Would the plan make any special provisions for high-risk students, i.e., students who might not be able to complete their podiatric medical education?	No. However, to the extent that equal opportunity for students with less than adequate preparation and capacity is a national objective, they would have to be financed by the U.S. Government, perhaps through grants to the colleges for providing remedial work.
24. Would U.S. Government appropriations be required for this plan?	No direct appropriations would be required for the costs of education. However, it is expected that federal funds would be provided for: (a) repayment of loans in return for the provision of podiatric medical practice in underserved areas; (b) repayment by the government (as guarantor) of loans on which students or graduates default; (c) administration of the government's involvement in the plan as guarantor and as contractor for service in shortage areas.
25. Would the plan cause the colleges to reduce their efforts to raise funds from other sources?	No. The colleges would still need funds for construction, research, and development of ancillary programs.
26. What would happen if too many students were to sign contracts for service in underserved areas, or if Congress would want to spend less money on a commitment for podiatric medical services?	Congress could apply limits by: • accepting a limited number of contracts on a first-come first-served basis; • limiting the amount of loans that could be repaid for

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan

(continued-6)

Question	Answer
26. (continued)	service to perhaps 80 percent, or to a fixed dollar limit; • limiting the plan to tuition and fees only, etc.
27. Would the plan conflict with the usury laws in the various states?	Not likely. For further details see Appendix H.
28. Would there be a limit on the amount of tuition that could be charged by a college?	Not required by the plan, but Congress could impose limits if necessary for prudent administration.
29. How could the plan protect the government and students against the colleges' increasing tuition precipitously?	Congress could limit tuition increases (as a requirement for participation by the student of any particular college in the guaranteed loan program) by establishing, for example: • a maximum ceiling on the amount loaned for tuition; • a maximum percentage rate of annual increase for which loans could be made; • a percentage increase rate based on changes in the national index in the cost of living. Alternatively, the government

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan
(continued-7)

Question	Answer
29. (continued)	could ask the American Podiatry Association to establish a Tuition Policy Commission to make recommendations on maximum tuition levels.
30. How does the proposed plan differ from other student loan plans?	By providing for a Federal Government repayment of the loans of graduates which cover a large part of the total cost of professional education in return for the professional services to be provided in underserved areas.
31. Is there any assurance that lenders will provide the amount of loan funds needed?	Not until a final assessment is made to assure that the loan terms and conditions would be favorable enough to induce lenders to participate to the extent necessary. Arrangements need to be explored also for the establishment of a secondary market through an organization such as the Student Loan Marketing Association.
32. Would students be willing to borrow the large amounts involved in the plan at the relatively high rates of interest proposed?	A large majority of the students have indicated support of such a plan. Many students indicated during the course of the study that they would use any means available to finance their education because they have no alternatives. The repayment by service option will be instrumental in the students' decisions to borrow under the plan.

(continued)

Appendix K

Questions and Answers About the Proposed Deferred Cost of Education Plan
(continued-8)

Question	Answer
33. Is cash repayment in three years a real option in this plan?	For some students, no; for others, it is. Obviously, the objective is to bias the student's decision so as to favor service in shortage areas. However, longer periods for repayment in cash could be provided if the government deems service in shortage areas to be of a low priority.
34. Could the life insurance feature included in the plan be continued after the student repays the loan?	Yes, a conversion privilege could be incorporated in the life insurance policy.
35. What percentage of the principal amount borrowed would be added to cover the full cost of borrowing including interest, insurance, and other fees?	The rate of interest would be three percent above the three-months U.S. Treasury bill rate. Other borrowing costs would amount to about two percent of the loan balance outstanding each year. Students could be expected to add accumulated borrowing costs to the amount of new loans taken in succeeding years.

Appendix L

Comparison of Five Plans for Financing Podiatric Medical Education

Plan	Enabling Actions	Student Elibibility	Amount of Loan	
			Maximum	Limitation
Recommended Plan	Federal legislation to provide U.S. Government guarantee of loans to podiatric medical students who contract to serve in underserved areas after graduation and residency.	Every student enrolled in the doctoral (DPM) degree program at a college of podiatric medicine would be entitled to borrow under the plan.	An amount equal to: 1) tuition and fees; 2) room, board, and books (as determined by regulations to be established under the Plan); and 3) accumulated interest and other borrowing costs.	None.
Alternative Plan #1	Federal legislation to provide over a period of five years $7 million to the colleges of podiatric medicine, in lieu of capitation grants, to enable them to establish a College Security Fund. These funds, when deposited with a private "guarantor" organization, such as United Student Aid Funds, Inc., would establish a $70 million revolving loan fund. That amount (pro-rated according to enrollment) would be available to each college for loans to its students.	Same as Recommended Plan; however, if the amount of loan funds needed in any semester were greater than the amount available in the College Security Fund, the loans would be made to needy students first in the order of their highest priority.	An amount equal to the cost of tuition and fees.	The amount of loan funds might not be adequate if all the students needed to borrow the full amount of the cost of tuition and fees.
Alternative Plan #2	Similar to Alternative Plan #1 except that the amount needed to establish the College Security Fund would be raised from private donors, foundations, state governments, and from internal operations of the colleges. Continuation of capitation grants by the Federal Government would be decided separately.	Same as Recommended Plan; however, if the amount of loan funds needed in any semester were greater than the amount available in the College Security Fund, the amount of the loans made to each student would be reduced pro rata.	Same as Alternative Plan #1.	Same as Alternative Plan #1.
Alternative Plan #3	Federal legislation to amend the Guaranteed Student Loan Program with respect to health professions students as follows: 1) raise the borrowing limit to $25,000 (from the $10,000 now existing, which includes loans incurred for undergraduate education); 2) raise the maximum rate of interest chargeable to students to 8% (from the present 7%); 3) increase the special allowance paid by the U.S. Treasury on Guaranteed Student Loans from the present maximum of 3% to a maximum of 4%; and 4) extend the grace period to three years (from the existing one year after the borrower ceases to be a full-time student) in order to allow enough time for residency training and establishing practice.	Every student enrolled in the doctoral (DPM) degree program at a college of podiatric medicine could borrow under these provisions at the discretion of the lender.	$5,000 each year.	The maximum loan amount would soon be less than the full cost of tuition and fees, probably within three years.
Alternative Plan #4	Federal legislation to 1) raise the borrowing limit under the Health Professions Student Loan Program to a maximum of $7,000 per academic year, or the amount of financial need, whichever is less; 2) liberalize substantially the needs formula; 3) increase the grace period to three years after the student graduates or ceases to be enrolled full-time; and 4) establish the Program as an entitlement to be funded in the aggregate amount necessary each year to cover the student loan requirements of all students according to their needs as determined by the needs analysis formula.	Students enrolled in a college of podiatric medicine for a doctoral (DPM) degree who are in need (as determined by the needs analysis formula) would be entitled to borrow under this plan.	$7,000 each year or the amount of financial need, if less.	Serves only students in financial need as determined by the needs analysis formula.

(continued)

Appendix L

Comparison of Five Plans for Financing Podiatric Medical Education
(continued - 2)

Plan	Source of Loan Funds	Loan Instrument
Recommended Plan	Individual banks, insurance companies or a separately incorporated company such as United Student Aid Funds, Inc., acting as agent for a group of banks, insurance companies, pension funds, etc., or a separate company such as the Student Loan Marketing Association with access to the capital markets.	Notes would be signed by the students and guaranteed by the U.S. Government.
Alternative Plan #1	Groups of banks or insurance companies whose funds would be administered through United Student Aid Funds, Inc., or a similar independent organization.	A note would be signed by the student and by a private guarantor organization, such as United Student Aid Funds, Inc.
Alternative Plan #2	Same as Alternative #1.	Same as Alternative Plan #1.
Alternative Plan #3	Individual banks and other eligible lending institutions as provided currently under the Guaranteed Student Loan Program.	A note would be signed by the student and insured by the Federal Government after having been guaranteed by a state agency or an independent nonprofit organization such as United Student Aid Funds, Inc.
Alternative Plan #4	Federal appropriations would be provided to each of the colleges of podiatric medicine which would be required to provide one-ninth of the federal allotment in matching funds.	A note would be signed by the student to effect the loan agreement with the college.

(continued)

Appendix L

Comparison of Five Plans for Financing Podiatric Medical Education
(continued - 3)

Plan	Interest Rate	Repayment Terms Including Grace Period	Repayment by the U.S. Government For Service in Shortage Areas
Recommended Plan	The notes would bear the going rate of interest (say the three-months U.S. Treasury bill rate plus three percent).	The principal, plus accumulated interest and other borrowing costs would be payable in three equal annual installments starting at the end of the first year after the student receives the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate program including residency.	For each graduate the government would pay annually one-third of the outstanding balance of the loan, including accrued interest and other borrowing costs, for each consecutive year of full-time podiatric medical practice in a designated underserved area. The minimum service commitment would be two years. Congress could choose to make similar repayment provisions for active military service or service in ACTION, Peace Corps, VISTA, or the National Health Service Corps.
Alternative Plan #1	Same as Recommended Plan.	The principal, accumulated cost of interest, insurance, and service fees, would be payable in 20 equal annual installments, beginning at the end of the first year after the student receives the DPM degree, ceases to be a full-time student, or completes an accredited postgraduate program including residency.	Under existing provisions for agreements with the Secretary of Health, Education, and Welfare, graduates could have up to 85 percent of their loans repaid by the government in return for up to three years of service in a designated shortage area. This provision could continue to be offered at the option of the Secretary. Congress could choose to make similar repayment provisions for active military service or service in ACTION, Peace Corps, VISTA, or the National Health Service Corps.
Alternative Plan #2	Same as Recommended Plan.	Same as Alternative Plan #1.	Same as Alternative Plan #1.
Alternative Plan #3	The notes would bear eight percent interest to be paid by the student and would be supplemented (up to four percent in addition) by the U.S. Treasury.	The principal of the notes would be payable in equal monthly installments over a period of five to ten years beginning at the end of the grace period (which is nine months to one year after borrower ceases to be at least a half-time student).	Same as Alternative Plan #1.
Alternative Plan #4	The notes would bear interest at the rate of three percent per annum.	The principal of the notes would be payable over a ten-year period in equal or graduated annual installments beginning at the end of the grace period (which begins immediately after the borrower ceases to be a full-time student).	Same as Alternative Plan #1.

(continued)

Appendix L

Comparison of Five Plans for Financing Podiatric Medical Education
(continued - 4)

Plan	Cash Repayment	Provisions for Inability or Failure to Repay the Loan	Administrative Costs
Recommended Plan	The student would be entitled to repay in cash any part or the full amount of the loan together with the accumulated charges and interest as an alternative to serving in a shortage area. There would be no penalty for early repayment.	In conjunction with the loan a life and disability insurance policy would be issued, the face amount of which would be equal to the amount of the loan plus accrued interest, cost of insurance, and service fees. The government would repay loans in default. Congress could provide for repayment of loans by the government in extreme hardship cases.	A service fee would be added to the amount of the loan to cover the administrative costs of operating the loan programs.
Alternative Plan #1	Same as Recommended Plan.	A fee equal to one-half of one percent of the outstanding principal balance of each loan would be charged to establish a guarantee fund in the name of each college to cover defaults by its students. In the event and to the extent that payments on defaulted loans from the guarantee fund exceeded the amount of the fund, payment of defaulted loans would be covered by the College Security Fund. Each college would be responsible for replacing any funds used in this manner.	Earnings from interest on the amounts deposited in the College Security Fund would be used to cover the administrative costs of operating the loan program.
Alternative Plan #2	Same as Recommended Plan	Same as Alternative Plan #1.	Same as Alternative Plan #1.
Alternative Plan #3	Same as Recommended Plan.	An insurance premium of not more than one percent each year of the total loan amount outstanding would be collected in advance by the lender from the borrower under guaranteed programs of state agencies or private organizations. Full cancellation of a borrower's unpaid loan balance would be allowed for death, permanent and total disability, or bankruptcy. State or private guarantee agencies and/or the Federal Government also would repay loans on which students defaulted in repayment for other reasons.	The lending institutions, the Federal Government, and the colleges would each bear a portion of the cost relative to their involvement in the administration of the program.
Alternative Plan #4	Same as Recommended Plan.	Students who failed to complete their health professions studies could have their outstanding loans repaid by the Secretary of Health, Education, and Welfare if they were in exceptionally needy circumstances, or were from a low income or disadvantaged family, and could not be expected to resume study within two years. Full cancellation of a borrower's unpaid loan balance would be allowed for death, permanent and total disability, or bankruptcy. Failure to repay the loans for other reasons would result in the loss of those funds to the colleges and the Federal Government.	The cost of administering the program would be financed primarily by the colleges out of their operating budgets. The Federal Government would bear a portion of the cost relative to its administration of the program.

(continued)

Appendix L

Comparison of Five Plans for Financing Podiatric Medical Education
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Plan	Deferment of Payment	Interest Subsidy
Recommended Plan	Deferment of payment could be allowed at the discretion of the lending institution and United Student Aid Funds, Inc., for reasons they deem appropriate.	None would be provided; however, Congress would have the option to do so.
Alternative Plan #1	Same as Recommended Plan.	Same as Recommended Plan.
Alternative Plan #2	Same as Recommended Plan.	None would be provided.
Alternative Plan #3	Repayment of amounts due could be deferred during periods of: • service in the Armed Forces, Peace Corps, or VISTA (up to three years); • full-time study at an eligible school.	Interest on the loans would be partially subsidized by the Federal Government. The student would pay the 8% interest annually; however, borrowers with adjusted family income of less than $15,000 would pay only the interest on the first $2,000 of the loan amount until the repayment period began. Thereafter, students would be responsible for paying interest charges on the full amount of the loan. The Federal Government would pay the interest during periods of deferment.
Alternative Plan #4	Repayment of amounts due could be deferred during periods when the borrower: • reenters (within the grace period) an eligible health professions school for full-time study; • performs full-time active duty in the Armed Forces, National Ocean Survey or U.S. Public Health Service, or serves as a volunteer under the Peace Corps Act (up to three years); • pursues advanced professional training of at least one academic year beyond the first professional degree, including internships and residencies.	The Federal Government would waive the interest payments until the grace period has ended and during periods of deferment.